

EIGHTEENTH ANNUAL REPORT ON THE TRADE
AGREEMENTS PROGRAM

MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

TRANSMITTING

THE EIGHTEENTH ANNUAL REPORT ON THE TRADE
AGREEMENTS PROGRAM, PURSUANT TO SECTION 402(a)
OF THE TRADE EXPANSION ACT OF 1962 [19 USC 1803(a)]



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LETTER OF TRANSMITTAL

To the Congress of the United States:

In accordance with section 402(a) of the Trade Expansion Act of 1962 (TEA), I transmit herewith the Eighteenth Annual Report of the President on the Trade Agreements Program. This report covers developments in the year ending December 31, 1973.

Last year was a particularly important one for United States and world trade, as this report demonstrates in detail. Unquestionably the highlight occurred last September in Tokyo, when the ministers of 105 sovereign nations joined to declare their support for a new round of multilateral trade negotiations, the seventh since the General Agreement on Tariffs and Trade (GATT) was signed in 1947. This round represents a major initiative of the United States, along with initiatives in the international monetary field, begun in the fall of 1971. The charter for these negotiations, as embodied in the Declaration of Tokyo, is the most ambitious yet.

The purpose of these talks is no less than to modernize a world trading system which, though it has well served the world's peoples and brought about the many benefits of a four-fold expansion of trade, is no longer capable of responding to the needs and realities of a rapidly changing and increasingly interdependent world economy.

First, these talks are aimed not only at the continuing need to facilitate trade by lowering tariffs, but at reducing today's most pervasive and restrictive export inhibitors, so-called non-tariff trade barriers (NTBs). Unless these can be effectively dealt with, no major exporting nation—especially the United States—can hope to remain competitive in today's and tomorrow's world markets. And loss of competitiveness abroad can threaten the viability of firms and lead to loss of markets at home.

Second, the inflationary pressure of increased costs has become a major international problem which must be dealt with multilaterally if we are to adequately deal with inflation domestically.

Third, the need to maintain access to vital raw materials, energy, and food requires negotiated assurances for such access to supplies as well as to markets.

Fourth, economic issues should be managed and negotiated in parallel with political and security issues, in order to make progress on all three fronts.

Finally, we must encourage sovereign governments to work within an acceptable international framework to deal with such problems as import safeguards and export subsidies. At the same time we must have the authority to defend our legitimate national interests and manage domestic concerns in the context of an up-to-date, responsive and responsible international system.

None of these objectives can be accomplished without the appropriate legislative authorization. This authority—carefully balanced with provisions for the most effective Congressional and public participation in our trade policy-making and negotiating since GATT was formed—is represented in the Trade Reform Act, which I submitted to the Congress in April of 1973. This legislation, which passed the House by a margin of nearly two-to-one last December and is now pending in the Senate, is still urgently needed.

Time is now of the essence with regard to the trade bill. Our trading partners have demonstrated their willingness to use and improve multilateral channels for trade negotiation. Just this spring, the European Community negotiated a fair and equitable accord compensating us for tariff changes resulting from the enlargement of the European Common Market. Through the Organization for Economic Cooperation and Development (OECD), ministers of member countries have joined with the U.S. in renouncing trade restrictive measures as balance-of-payments correctives, at least until the basic problems caused by oil price increases can be addressed through improvements in the monetary system. Developing countries, particularly our partners in Latin America, have indicated their willingness to work with us toward trade expansion and reform. As I have noted before, our new approaches to the socialist countries, especially to the USSR and the Peoples' Republic of China, hinge in large measure upon our ability to open up peaceful avenues of trade with them. Again, I have expressed my willingness to work with the Congress to find an acceptable formulation for this authority. In Geneva, the GATT Trade Negotiations Committee has announced a program of work for the fall to further prepare for the actual bargaining.

In short, the rest of the world is waiting for us at the trade negotiating table. The alternative is an indefinite period in which nations, including ours, will be forced to deal with increasingly complex and interdependent trade problems on an *ad hoc* basis. Experience has shown that this could lead to a proliferation of those problems and disputes over the best ways to resolve them. The adverse fallout from the resulting uncertainties and temptations of shortsighted unilateral actions could also seriously jeopardize gains we have made in the diplomatic and security fields.

For all these reasons, I take this occasion once again to urge prompt and final action on the Trade Reform Act. It is essential that we move ahead to revitalize the global trading system through multilateral negotiations.

RICHARD NIXON.

THE WHITE HOUSE, *August 8, 1974.*

AUTHORITY

TRADE EXPANSION ACT OF 1962, SECTION 402(a)

The President shall submit to the Congress an annual report on the trade agreements program and on tariff adjustment and other adjustment assistance under this Act. Such report shall include information regarding new negotiations, changes made in duties and other import restrictions of the United States, reciprocal concessions obtained, changes in trade agreements in order to effectuate more fully the purposes of the trade agreements program (including the incorporation therein of escape clauses), the results of action taken to obtain removal of foreign trade restrictions (including discriminatory restrictions) against U.S. exports, remaining restrictions, and the measures available to seek their removal in accordance with the purposes of this Act, and other information relating to the trade agreements program and to the agreements entered into thereunder.

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I. TRENDS IN 1973

A. World Economic and Financial Developments in 1973

The world economy and international trade continued to expand rapidly in 1973, despite abruptly changing economic circumstances and uncertainty in the monetary sphere. A simultaneous economic boom in the major industrial countries and shortages of food and raw materials exacerbated an already serious world-wide inflation. Late in the year, cutbacks in oil production and precipitous increases in oil prices added further to inflationary pressures and dramatically altered the prospects for world production, employment, and monetary stability. Recognizing the dangers posed for the world economy by the balance of payments strains that could result from the increases in oil prices, the Committee of Twenty (C-20), established by member countries of the International Monetary Fund (IMF), recognized in January 1974 that countries should not adopt payments policies that would merely aggravate the problems of other countries and stressed the importance of avoiding competitive depreciation and the escalation of restrictions on trade and payments.

The tensions inherent in the major trade and balance of payments adjustments facing most countries underscore the importance of maintaining the impetus toward trade liberalization. Developments of the past year, however, demonstrate that in addition to providing more open access to markets, the trade negotiations must focus attention on rules to govern the supply of internationally traded goods.

International inflation. The simultaneous boom in economic activity in the major industrial countries in 1973 triggered the most pervasive international inflation of the post-war period. As a group, the major industrial countries experienced consumer price rises approaching 10 percent, nearly double the average annual rate in the preceding four years. U.S. consumer price increases of 8.8 percent were only slightly below the average for the group. Wholesale prices rose even more -- the average increase exceeded 14 percent, and U.S. wholesale prices rose by 15.5 percent.

Inflation in 1973 was concentrated largely in commodities, and especially in the agricultural sector. Prices of the entire range of protein-rich foodstuffs rose sharply as a tight supply situation developed in the face of natural forces curtailing certain traditional sources and rapidly increasing world demand for high protein consumption. In total, it has been estimated that higher food costs accounted for half of the increases in U.S. consumer prices in 1973.

The boom in economic activity also placed strains on raw material supplies such as nonferrous metals and timber. Domestic markets in some countries, whose currencies appreciated during the year, were partially shielded from the strong international commodity price pressures. Others, whose currencies depreciated, such as the United States during the first half of the year, were not only fully exposed to the world price trends, but had to absorb an additional source of inflationary pressure.

The steep increase in oil prices which occurred late in the year exacerbated price problems in 1973 and made the overall economic outlook for 1974 both more uncertain and more difficult to plan for.

International payments. The year saw substantial progress toward improved international payments equilibrium. In particular, with imports measured on an f.o.b. basis, the U.S. trading accounts moved into small surplus, and the large surplus of Japan was reduced.

The year-end oil price increases introduced a new dimension. It has been estimated that if the late December oil prices were maintained, the combined current account position of the developed world would deteriorate by some \$40 billion, and that of the less developed countries (other than the oil exporters) by an additional \$10 billion. Not only are the financial implications awesome, but such a massive transfer of resources from oil consuming to oil producing countries would raise major problems for demand management policies. While the transfer of resources to countries unable to spend them may tend to depress economic activity, the oil price rise itself may push the inflation rate into the 10-15 percent range in many countries.

As the United States was expected to be the world's largest oil importer in 1974, the impact on the United States of the oil price rise will be substantial. At the same time, the United States is in a better position than most countries to respond. The pattern of our energy consumption places the United States in a favorable position to conserve energy. The United States is the world's largest oil producer and has

substantial alternative energy sources. The improving U.S. trade and payments position provides a base from which to meet short-run oil import requirements. Also U.S. financial markets are expected to prove attractive to the oil producing states as a locus for investing their increased revenues.

Other countries, particularly some of the developing countries, are not in so fortunate a position, and there is a danger that individual national responses to deteriorating economic and payments prospects could lead to a self-defeating and destructive series of competitive depreciations and restrictions that would simply add to the problems of other countries. In early 1974, this danger was recognized explicitly at the Rome meeting of the C-20, as Ministers agreed that cooperative international efforts on a broad front were required to overcome the difficulties occasioned by a radically altered world energy situation.

Exchange rate developments. In part as a consequence of the Smithsonian exchange rate realignment of 1971, the deterioration in the overall U.S. payments position was halted and the official settlements deficit was reduced by two-thirds in 1972. Nevertheless, the outlook in the early weeks of 1973 was that the actual and prospective improvement in the U.S. position would not be vigorous enough to restore overall balance within a reasonable period. Following severe exchange market pressures in late January, stimulated in the first instance by speculative developments on certain European exchange markets, the United States consulted with a number of its trading partners and it was agreed that a further 10 percent reduction in the par value of the dollar was warranted. In conjunction with this action by the United States, several of the United States' major trading partners decided to allow their currencies to float, or to continue floats that had been initiated earlier; others maintained their central rates or par values, in effect allowing the dollar exchange rates for their currencies to reflect the dollar's devaluation. As a result of these changes, the dollar experienced an effective trade-weighted depreciation of slightly more than 7 percent against the currencies of other Organization for Economic Cooperation and Development (OECD) member countries. Taking both the Smithsonian and February 1973 realignments into account, the total effective depreciation of the dollar amounted to about 16 percent immediately following the February realignment.

In March, continued uncertainty in exchange markets and speculative pressures prompted further exchange rate action abroad. On March 12, six members of the European Community (Germany, France, Belgium, Netherlands, Denmark, and Luxembourg) announced that they would no longer intervene at fixed margins of fluctuation against the dollar, but would, however, limit the margin of fluctuation among their own currencies to 2-1/4 percent. Sweden and Norway subsequently associated their currencies with this joint float. The United Kingdom and Italian currencies floated independently of these European currencies, and Japan and Canada also continued to float.

Dollar depreciation vis-a-vis the United States' major trading partners reached a peak in the first half of July, and was subsequently reversed. The dollar strengthened sharply during the latter months of the year, bolstered by an improved U.S. trade and payments position, and, to an extent, by a widespread assumption in the exchange markets that the U.S. payments position would not be as severely affected by the oil price developments as would the positions of many other countries. By the end of 1973, the strengthening of the dollar had offset the decline in the effective rate following the February 1973 realignment.

It is widely felt that the regime of floating exchange rates that has generally prevailed since mid-March 1973 has worked well in a period of rapid change and extreme uncertainty. International trade and investment have continued to grow, and, despite previous concerns, it is not apparent that either trade or long-term investment flows have been adversely affected to any significant extent by widespread floating. In fact, the floating regime has probably served to dampen speculative short-term capital movements that might otherwise have been expected on a significant and disruptive scale in the circumstances of 1973 and early 1974, thereby contributing in a broader sense to international monetary stability. The floating regime is generally considered appropriate to present and immediately foreseeable circumstances, pending implementation of comprehensive, reformed monetary arrangements. In this context, the development of guidelines for floating exchange rates has acquired a position of considerable importance and priority in the work of the C-20.

International monetary reform. The C-20 continued during the year to work toward agreement on comprehensive reform of the international monetary system. At the annual meeting of the IMF in Nairobi in September 1973, the Chairman of the C-20 published a report on the Committee's work, including a "First Outline of Reform" reflecting his

view of the status of the negotiations, identifying areas of general consensus and indicating where further work was needed. The C-20 Ministers agreed to try to complete their work by the end of July 1974. In order to help meet this target, four technical groups were established under the C-20 Deputies to examine the details of alternative arrangements relating to adjustment (including a reserve indicator structure), intervention and settlement, global liquidity and consolidation, and transfers of resources to developing countries.

The oil price increases announced between the Nairobi meeting and the end of the year dramatically altered the basic framework of the monetary negotiations, introducing enormous uncertainty about future payments prospects and, to some extent, modifying the priorities attached to particular aspects of the negotiations. As noted above, the C-20 in January 1974 agreed on certain principles of behavior with respect to balance of payments policies to be followed in light of the oil situation. The Committee also agreed to give priority attention to several areas of reform with a view to early implementation, while noting that other principles could be agreed but left for detailed development and implementation at a later stage.

The main priority issues include:

-- Establishment of a new Council of Governors of the IMF. As envisaged in the January 1974 C-20 communique, the Council, 20 in number, would be established between the Executive Board and the full Board of Governors. The Council would meet three or four times a year and would have the necessary decision-making powers to manage and adapt the monetary system, to oversee the continuing operation of the adjustment process and to deal with sudden disturbances which might threaten the system. As an interim step, pending formal and legal establishment of the Council, it was agreed that a Committee of the Board of Governors should be created, with an advisory role in the same areas as the Council and with the same composition and procedures. This Committee would come into being when the C-20 has completed its work. The IMF Executive Board was invited to prepare for the Board of Governors a draft resolution to create such a Committee.

-- Implementation of an interim valuation for the Special Drawing Right (SDR). It was agreed that in present circumstances of widespread floating, it would be appropriate to base the valuation of the SDR on a "basket" of currencies. This technique would be used only for an interim period of about two years -- alternative valuation techniques that would better protect the SDR's capital value against depreciation are to be examined for the longer term -- and the general agreement on an interim basket was reached without prejudice to the method of valuation to be adopted in the reformed system. The IMF Executive Board was invited to work on various questions related to interim valuation, including the composition of a currency basket and the interest rate on the SDR.

-- Development of guidelines for floating exchange rates. The C-20 Deputies, in cooperation with the IMF Executive Board, are to work to develop guidelines or principles of behavior for countries whose currencies are floating. This subject has a clear relevance to immediately foreseeable circumstances and a number of countries have submitted suggested rules. It is hoped that such guidelines can be developed quickly and will make an important contribution to the enhanced responsibilities envisaged for the IMF with respect to the operations of the adjustment process, both in the immediate future and for the longer term.

The C-20 is expected to complete its work in June 1974. Agreement on certain aspects of reform beyond those enumerated in the January communique may also prove possible by June for implementation in the near term. The Committee envisaged that other issues would be agreed upon in principle but left for future implementation.

B. World Trade in 1973

In 1973, world trade posted its steepest climb since the early Fifties. The upsurge stemmed from strong import demand throughout a large part of the world. Heavy shipments of farm products were a key factor in this expansion as crops failed in a number of agricultural producing countries and food requirements grew with rising incomes. Moreover, intense inflationary pressures boosted prices of nonfarm as well as farm commodities, adding significantly to the value of goods traded internationally.

Exports of market economy countries to all destinations soared to over \$500 billion, based on prevailing exchange rates. This was a gain of more than one-third, or double the rate of growth in 1972. The volume of goods moving across national boundaries rose

about 15 percent, a significant acceleration from the 9 percent gain in 1972. The remainder of the increase in exports was attributable chiefly to higher commodity prices and the valuation changes resulting from conversion of national trade data to dollars at exchange rates in effect during each period.

Developed Countries -- Exports by the developed countries accelerated sharply following a substantial advance in 1972. Imports into these markets likewise climbed faster, stimulated by the stepped-up growth in their output. The trade gains in each direction are estimated at around 35 percent, boosting the exports of the more economically advanced areas to around \$410 billion (f.o.b. basis) and their imports to around \$430 billion (c.i.f. basis). As a result of the vigorous advances, the share of these countries in international trade increased further, continuing the trend evident for some years.

The United States retained its position as ranking world supplier with an export advance of more than two-fifths. The record performance, which is discussed in detail later in this chapter, raised the nation's share of global exports to more than 14 percent. Germany likewise enhanced its standing as shipments of goods to all markets, including the expanded nine-member European Economic Community (EC), climbed slightly faster than those of the United States. The relative position of France in world exports also strengthened but those of Japan, the United Kingdom, and Italy weakened in 1973.

Exports originating in Western Europe expanded considerably more rapidly than in 1972, when the rise in value was one-fifth. A similar boost brought EC deliveries (including trade among members) to more than \$210 billion, about 40 percent of the world total.

The expansion in German exports was the steepest of any of the Community members. Passenger cars, machinery, chemicals, and steel-mill products accounted for most of the rise in shipments. France likewise posted a big advance in deliveries, principally from buoyant sales of passenger cars, tires, and agricultural products. The strong trade performance of the Netherlands was due largely to greater shipments of chemicals -- especially organics and resins -- nonelectrical as well as electrical machinery, and petroleum products, despite the Arab embargo imposed toward the end of the year on crude petroleum destined for Dutch refineries.

Rising demand for Belgian goods centered mainly in steel-mill products, passenger cars, and nonferrous metals. In Britain, stepped-up shipments of chemicals and machinery were responsible for much of the export rise of 25 percent, nearly three times the gain in 1972. Italy, by comparison, duplicated its previous year's rate of increase in sales to foreign markets.

Among the larger, non-EC trading nations, Sweden benefitted significantly from higher world prices for paper, wood, and woodpulp, all of which were in short supply. Switzerland also reported sharply higher exports.

The countries of Western Europe as a group increased their imports at a much higher rate than did the United States. That region's purchases from foreign sources expanded by more than one-third, compared with an 18 percent increase in 1972. A similar speed-up was reported by all EC members.

Germany doubled its already large trade surplus as the import advance, although strong, failed to match the export expansion. In Britain, France, Italy, and Denmark, on the other hand, the trade balance deteriorated, despite export gains, as expanding economic activity at home and rising prices boosted their import bills significantly.

Elsewhere in Western Europe, the inflow of goods from foreign suppliers was also buoyant, generally for the second year in a row. For Yugoslavia the boost in purchases from abroad represented a recovery from no growth in 1972.

Canada maintained its trade surplus at around \$1 billion. Substantial increases in the exchange of automotive products with the United States accounted for much of the growth in Canada's trade, as in the preceding two years. Higher prices realized on foreign sales of wheat, wood, newsprint, and petroleum were also important in raising the value of exports, while the strong economic expansion led to substantially larger imports of various products.

Japan, the third largest trading nation, reported a marked deterioration in its merchandise balance. Imports skyrocketed by nearly two-thirds as demand grew rapidly for most of the year and prices of farm products and raw materials climbed sharply. The export rise of 30 percent, based on dollar values, came mainly from greater deliveries of steel-mill products, ships, and passenger cars.

Australia, in contrast, strengthened its external position as exports surged by one-half compared with a rise of two-fifths in imports. Big sales increases in wool, reflecting in part higher prices, more than compensated for reduced sales of wheat due to a poor harvest.

Developing Countries -- In 1973, the 12 members of the Organization of Petroleum Exporting Countries (OPEC),^{1/} substantially expanded their total exports, which are composed overwhelmingly of crude oil. This advance resulted from higher prices on their oil as well as from greater quantities shipped abroad.

Prices for petroleum supplied by OPEC members advanced during the first three quarters of the year and then, in mid-October, after the outbreak of the Arab-Israeli war, an exceptionally large boost was announced. For the year as a whole, petroleum export prices averaged 25 to 30 percent higher than in 1972. Effective the first quarter of 1974, a further steep rise ordered in late December brought prices to four times their level at the start of 1973.

Some Arab members of OPEC reduced exports in the final quarter of 1973 in an effort to influence the Middle East peace negotiations, but for the year as a whole their export volume was greater than in 1972. Combined oil exports of OPEC members climbed by an estimated 12 percent in quantity during 1973, a sizable step-up from the 7 percent expansion the preceding year. As a result of these developments, the total value of exports of OPEC countries rose by about 35 percent to approximately \$33 billion. Their share of world exports remained unchanged at about 7 percent, in contrast to the other developing countries, whose role in international trade diminished.

The biggest export gains for the year were recorded by Saudi Arabia and Iran, reflecting both expanded petroleum shipments and higher prices. The rise in oil prices was the dominant factor in the export increases realized by Venezuela and Kuwait, where quantities shipped showed little change from 1972 levels, and by Libya, where there was an actual decrease in the volume of oil sent to foreign markets.

The limited data available for 1973 precludes a discussion of imports into OPEC countries.

The trade of the developing countries not belonging to OPEC expanded at a faster rate than in 1972, although growth lagged behind that of the developed areas and of the OPEC nations. Exports rose by about a fourth to \$60 billion, according to preliminary data for 1973.

In South and East Asia, Hong Kong retained its trade lead with a two-fifths increase in foreign sales, while exports from the Philippines, Singapore, Malaysia, and Taiwan -- aided by higher prices -- rose by a half or more. Strong markets for Philippine wood, sugar, and copper were key factors in that country's booming trade. Rubber was similarly important in boosting exports from both Singapore and Malaysia; the latter benefitted in addition from the greatly increased value of its timber shipments. Plywood deliveries from Taiwan were likewise buoyant. Despite decreased cotton shipments due to flood devastation, Pakistan's overall exports expanded by about one-third. Sluggish sales of textiles and reduced availabilities of farm products held India's exports to a comparatively moderate rate of growth.

Imports into South and East Asia were generally expansive. Pakistan, sustaining huge losses from flooded food stores and crops, stepped up foreign purchases by nearly two-fifths in 1973. Sharp import increases were also reported by Singapore, Taiwan, Hong Kong, and the Philippines.

In Latin America, Brazilian exports surged by 60 percent following an exceptional 37 percent increase in 1972. Prominent among the fast export gainers in 1973 were motor vehicles, electrical machinery, steel-mill products, computer parts, and footwear. Although the quantity of coffee shipped remained relatively unchanged, higher prices

^{1/} Members at the close of 1973 were Algeria, Ecuador, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

significantly increased export values. Colombian deliveries to foreign markets were similarly affected by the coffee situation. In Peru, copper shipments expanded in value despite a drop in amounts delivered, but a drastic cut in fishmeal, a major export, caused a decline in total foreign sales.

Imports into Latin American markets showed substantial increases. Brazil expanded the inflow of goods by about 30 percent, as in the preceding year, while Colombia's marginal gain reversed the slight decline in 1972. The booming Mexican economy accelerated purchases from abroad with a rise of more than one-third.

In Africa, Nigeria, a leading petroleum supplier, reported an export gain of one-fourth. Morocco experienced a steep upsurge in shipments as greater quantities of phosphates sold abroad more than offset the small drop in prices. Zambia's exports expanded principally as a result of the large increase in copper prices, as volume rose only moderately. Tunisia, with olive oil deliveries considerably below 1972 quantities, showed little export growth.

Morocco's imports climbed sharply as foreign exchange reserves rose steadily. Purchases by Nigeria recovered from their sluggish performance in 1972 but Zambia's were reduced after a slight increase that year.

Among the Near Eastern countries not belonging to OPEC, Egypt raised exports by only 15 percent, lagging behind other leading traders of the developing world. Israel's exports advanced by twice that rate as larger sales of diamonds more than countered poor export performance of citrus fruits. Imports into Israel soared by 50 percent following a year of slight growth.

C. U.S. Foreign Trade

A record-setting increase in exports resulted in a dramatic turnaround in the U.S. trade position in 1973. The merchandise trade balance shifted to a surplus of \$1.7 billion, from a deficit of \$6.4 billion in 1972, as exports accelerated strongly while imports expanded at a rate only slightly more rapid than in the previous year.

In 1973, U.S. exports, excluding military grant-aid, climbed to \$70.8 billion, a 44 percent increase over the preceding year. Imports advanced by 24 percent to \$69.1 billion. By comparison, exports gained 13 percent and imports 22 percent in 1972.

The improvement in the trade position progressed steadily throughout the year. Following the deficit registered in the first quarter, exports and imports were nearly in balance in the succeeding three month period. By the third quarter, the trade position had moved to a \$900 million surplus which expanded to \$1.7 billion in the final three months.

Higher prices, reflecting intense inflationary pressures here and abroad and, particularly on the import side, the appreciation of foreign currencies against the dollar, greatly amplified the expansion in trade values. Even if export and import totals were adjusted for price changes, however, the improvement in the trade position would still be very substantial. Exports, deflated by the unit value index, advanced by about 23 percent last year, more than double the 1972 increase, while the growth rate of imports was only 5 percent in real terms, compared with 14 percent in the preceding year.

The tremendous export expansion was attributable to several major factors. First, the strong acceleration in foreign economic activity stimulated demand for a wide variety of U.S. products, especially machinery and industrial materials. Secondly, the exchange rate shifts over the past two years have improved the price competitiveness of U.S. products in foreign markets; the strengthening of the dollar in the final months occurred too late to have affected our 1973 export performance adversely. Thirdly, extremely tight supplies of farm products overseas, due to smaller crops in many countries, stimulated a huge expansion in U.S. agricultural exports. Finally, domestic price controls provided an incentive for American firms to step up their sales efforts abroad.

The slowdown in import volume indicates that higher foreign prices, precipitated by the appreciation of foreign currencies, were effective in dampening U.S. demand for goods from abroad. Also, although the real growth rate of the U.S. economy for the year as a whole was nearly as large as in the preceding year, there was a marked deceleration after the first quarter, which acted as a restraining influence on our foreign purchases. Finally, tight supplies of some products abroad due to strong indigenous demand held down the import rise still further.

The ratio of U.S. imports to the gross national product rose last year to 5.4 percent from 4.8 percent in 1972. The export/GNP ratio increased from 4.2 percent to 5.4 percent.

Commodity Developments

Surge in nonfarm sales

The vigorous pace of economic activity in the countries comprising our major markets boosted sales of U.S. manufactures and other nonagricultural products by one-third to \$52.9 billion. Deliveries of nonfarm goods accelerated in the first half of last year and maintained their rapid rate of growth in the final six months.

Shipments of machinery were in the forefront of the nonagricultural export expansion. At \$17.6 billion, these sales exceeded their 1972 level by \$4.0 billion or 30 percent, contributing almost one-third of the total nonfarm export gain. Higher rates of investment spending in many foreign countries and the improved competitiveness of U.S. products as a result of the monetary realignments were the major forces behind the upsurge in machinery sales abroad. As in past years, demand was particularly strong for the technically sophisticated and large capacity equipment, in which U.S. manufacturers hold a technological advantage. Heavy outflows of parts for many types of machines, largely to U.S. affiliates abroad, again contributed importantly to the gain.

Exports of computers and parts climbed by 28 percent to \$1.7 billion, a substantial speed-up from relatively sluggish rates of growth recorded in the two preceding years. The faster rise was partly due to an increase in sales of mainframe computers which had declined in both 1971 and 1972. Deliveries of peripheral equipment and computer parts continued to advance as well.

Buoyed especially by increased building activity in Western Europe and expanded development projects in the economically less advanced countries, exports of construction and excavating machinery and tracklaying tractors gained. Efforts abroad to modernize production processes and cut manufacturing costs were a major factor in the more than one-third increase in shipments of materials handling equipment.

The advance in exports of farm machinery and tractors recorded during 1972 was repeated as growing world food needs stimulated greater agricultural production and sped the shift to more efficient farming methods. A significant portion of the outflow consisted of parts to subsidiaries of U.S. firms, particularly in Canada.

A two-fifths rise was recorded in exports of mining and well drilling machinery. Most of the advance consisted of equipment for oil exploration activity, particularly to Norway, the United Kingdom, Iran, Saudi Arabia, Singapore, and Indonesia. Sales of air conditioning and refrigeration machinery rose, reflecting strong foreign demand for climate control and food storage equipment and the technological edge held by U.S. suppliers.

Exports of automotive products to U.S. subsidiaries in Canada climbed by one-fifth, the same rate of advance as that recorded in the preceding year. Shipments of new cars rose particularly sharply in response to the rapid growth of auto sales in Canada. Greater outflows of parts and accessories were attributable to another increase in Canadian auto production which, in turn, was related to the buoyancy of the U.S. car market since most of the Canadian output is shipped here. For the first time in many years, exports of automotive products to countries other than Canada showed a large increase. The advance reflected in part the greater competitiveness of U.S. vehicles arising from the currency shifts and in part the availability of smaller sized American cars. Shipments to Mexico, Japan, and Australia recorded especially large gains.

Civilian aircraft exports jumped by 36 percent to \$2.3 billion. Most of the increase was accounted for by sales of the wide-bodied jet passenger transports of the type introduced to export markets by two U.S. manufacturers in late 1972. After dropping sharply in the previous year, deliveries of military aircraft nearly doubled in 1973. These shipments were particularly heavy in the fourth quarter.

Boosted by large gains in industrial output abroad, tight world supplies of many commodities, and price increases for a number of items, the value of industrial supplies exports recorded a steep advance. Chemical shipments accelerated, climbing by two-fifths to \$5.7 billion, as foreign demand intensified and shortages developed overseas. Shipments of organic intermediates posted a large rise despite supply

constraints stemming from shortages of petroleum, the major raw material for these chemicals. Plastic materials and resins gained by nearly one-half, with particularly steep increases to Japan and East and South Asia. Stepped-up agricultural production and relatively higher prices prevailing abroad stimulated fertilizer shipments. Sales of nuclear fuels to electrical utilities in Japan climbed.

The volume of softwood log exports, chiefly to Japan, climbed by only 6 percent compared with a more than one-third increase in 1972; much of the slowdown occurred in the second half of the year after Japan agreed to limit imports from the United States. Sharply higher prices, however, pushed the value of these shipments to nearly double the previous year's level. Lumber exports climbed two-thirds in value, reflecting heavy demand in Japan, Italy, Australia, and West Germany. Much of the 27 percent increase in paper exports to \$919 million reflected higher prices, as tight supplies resulting from strong domestic demand held down export quantities.

Exports of iron and steel products posted an increase of more than one-half, largely on the strength of shipments to Canada and the American Republics. A major factor was the strength of steel demand in other producing countries, which created domestic shortages and limited supplies available for export to third country markets. Heavy demand abroad and soaring prices boosted the value of steel scrap shipments. Export controls, initiated in July to ease pressures on supplies for domestic use, held down the outflow in the second half of the year, but the continued rise in prices partially offset the dampening effects of the limitations. Almost half of the increase represented shipments to Japan, but deliveries also rose sharply to Taiwan, Mexico, Spain, and Korea, countries where steel production has grown substantially in recent years.

Record rise in farm exports

U.S. agricultural exports recorded an exceptionally large expansion in 1973, climbing by 88 percent or \$8.4 billion over the preceding year's total to \$17.9 billion. This unprecedented increase was primarily the result of extremely tight world supplies of food and feed grains due to poor crops in many important producing countries. Price increases for most commodities played an important role in the export value advance. In volume terms, the rise in farm exports was about 26 percent.

Wheat shipments nearly tripled, reaching a total of \$4 billion. Sales to the U.S.S.R. showed the largest increase for an individual country, but accounted for only 15 percent of the overall rise in value, as sales to traditional markets -- particularly Japan, India, and Korea -- expanded and unit prices soared. Large deliveries to the People's Republic of China were also recorded. Heavy world demand for animal feeds and reduced competing feed supplies prompted a huge expansion in exports of corn and soybeans. Shipments of the latter commodity were held down in quantity during the third quarter of 1973 by supply constraints and temporary export controls.

Exports of cotton rose by 85 percent in value to \$929 million. Expanded world consumption, reduced competing supplies, and shortages of manmade fibers were the major factors behind the strong advance. The largest increases were to Japan, the People's Republic of China, Taiwan, and Korea.

Industrial supplies lead increase in imports

Purchases of industrial supplies increased by 31 percent in 1973 over last year's total, accounting for nearly half of the overall import expansion. Price advances, resulting mainly from shortages of many basic commodities, were an important factor in the value rise. Significant volume increases did, nevertheless, occur in response to the expansion in U.S. industrial production. Moreover, capacity ceilings were approached in some key materials producing industries, increasing our reliance on foreign supplies.

As a result of the worsening U.S. energy shortage, precipitated by continued strong demand and little growth in domestic production, petroleum imports soared to \$7.5 billion, up 76 percent over 1972. Price increases, especially in the latter half of the year, accounted for more than half of the value increase. The Arab embargo on crude oil shipments to this country, imposed in October, had relatively little impact on the volume of imports in 1973 due to the time required for transportation to this country, though receipts decreased somewhat in the final weeks of the year. Natural gas imports fell by 15 percent as a result of Canadian restrictions on outflow.

The rising trend of lumber imports, mainly softwood grades from Canada, continued as arrivals increased by 30 percent. However, a slump in housing starts beginning at mid-year caused lumber imports to fall substantially in July-December compared with the first half.

Although the value of iron and steel product arrivals increased marginally, the import volume declined by 14 percent due to strong steel demand abroad which limited supplies available for export to this country. With the drop in purchases from abroad and record domestic output, steel imports accounted for a significantly reduced share of U.S. apparent consumption last year -- 12.4 percent compared with 16.6 percent in 1972.

Substantial price increases, caused by speculation and supply disruptions as well as rapidly increasing demand, raised the value of copper imports but volume was little changed. Imports of aluminum dropped in both value and volume terms because of strong world demand and high prices abroad relative to those under U.S. price controls; substantial sales from government stockpiles helped avert a more serious domestic supply problem. Heavy industrial demand led to large increases in imports of silver bullion, platinum, and palladium.

Imports of newsprint climbed by 12 percent to \$1.2 billion, reflecting higher prices and greater U.S. reliance on supplies from Canada. Entries were reduced in the second half of the year, however, in part because of strikes which interfered with production at Canadian mills. Increases were also recorded for imports of woodpulp, chemicals, tires and tubes, and iron ore.

Rise in consumer goods imports modest

Consumer goods imports, after increasing by one-fourth in 1972, rose at a somewhat more subdued rate of 16 percent to \$22.7 billion last year, as demand was dampened by higher prices stemming from the two dollar devaluations and the appreciation of foreign currencies. The quarterly trend of these purchases showed a strong rise in January-March, more moderate increases in the second and third quarters, and a fractional decline in the final three months of the year. Nearly half of the increase resulted from a greater inflow of automobiles and parts. Automotive imports from Canada climbed by 12 percent, primarily reflecting continued strong demand for the compact and subcompact cars which constitute the major portion of Canadian output. Imports of foreign-type automobiles declined in quantity for the second straight year; the import value was up \$600 million, however, because of higher prices and a shift in import composition toward larger, more luxurious models. While the import share of the U.S. automobile market rose slightly from 14.8 percent in 1972 to 15.5 percent in 1973 due largely to a substantial drawdown of inventories, it is significant that the import share of compact and subcompact retail sales declined from 41 percent to 39.2 percent during this period.

Imports of nonautomotive consumer goods advanced by 16 percent, about half the rate of growth recorded in 1972. Higher foreign prices, following the depreciation of the dollar, were partly responsible for the slowdown. Purchases of consumer electronic products advanced by 13 percent, compared to a rise of more than one-third in 1972. Imports of transistor radios, sound recorders, and television sets all slowed considerably, as a drop in the volume of these arrivals from Japan was only partially offset by higher Japanese prices and increased entries from Taiwan and Korea. Imports of sewing machines and motorcycles, both imported primarily from Japan, declined in both value and volume.

Capital goods imports spurred by investment

Heavy U.S. investment spending and higher foreign prices combined to boost capital goods imports by one-third last year to nearly \$9 billion. Machinery arrivals, up by 36 percent, were the major contributor to the increase. Agricultural machinery, especially harvesting machines and parts from Canada, advanced strongly in the wake of record U.S. production and rising farm incomes. Entries of semiconductors, tubes, and transistors advanced by 76 percent, largely on the strength of shipments from foreign affiliates of U.S. firms in developing countries. Singapore was the largest supplier, followed by Mexico, Korea, and Hong Kong. Materials handling equipment imports, especially forklifts from Japan, climbed two-fifths, stimulated in part by the increase in U.S. industrial production and the competitiveness of foreign manufacturers in standard types of equipment. Imports of aircraft engines, electric power machinery, calculators, and machine tools also increased. Conversely, receipts of textile machinery were down sharply, due to a decline in purchases of knitting machines from the very high levels recorded in preceding years, and the more favorable competitive position of domestic producers following the currency shifts.

Food import value boosted by higher prices

Substantially higher prices accounted for nearly all the one-fourth increase in the value of food imports, which reached \$9.1 billion last year. Strong world demand and reduced supplies of some commodities contributed most to the upward pressure on prices. Imports of coffee rose by one-third in value, but only by 5 percent in volume. Lower Brazilian production, due to a frost-damaged crop, limited world supplies and boosted prices substantially. Cocoa bean imports also expanded sharply because of higher prices, prompting some manufacturers of chocolate products to switch to synthetic substitutes. The volume of sugar imports dropped marginally as lower availabilities prevented some suppliers from fulfilling their quotas, but the value rose by 10 percent.

Meat imports, now the largest food import item, rose by 36 percent, principally reflecting greater arrivals of higher priced fresh beef from Australia and New Zealand and canned hams from Denmark, the Netherlands, and Poland. Increases in quotas to alleviate tight domestic supplies permitted later arrivals of dairy products. After falling in 1972, imports of whiskey advanced by more than one-tenth.

Price Trends

Export and import prices soar

Export prices, as measured by the unit value index (UVI), advanced by nearly 17 percent following a 3 percent rise in 1972. The import unit value index rose still more rapidly -- 19 percent. These enormous increases reflected worldwide shortages of many commodities, inflationary pressures in the United States and abroad, and especially on the import side, the appreciation of foreign currencies relative to the dollar.

Food prices led the increases in export unit values with a jump of more than one-half. The price for wheat advanced three-fifths, while that for corn climbed by 50 percent above 1972. Unit values for oilcake and meal and rice also surged. The crude materials index expanded by 28 percent from a year ago, reflecting, to a large extent, the extremely sharp boost in soybean prices. The unit value index for logs also climbed steeply.

In contrast to increases in food and crude materials prices, the unit value index for manufactured goods rose by a relatively moderate 8 percent. Nevertheless, this rate of advance was nearly four times as rapid as that registered in 1972. Average prices for machinery items rose by 2 percent, while unit values for automotive products climbed by 6 percent. Prices for metals and chemicals, however, advanced much more rapidly.

The appreciation of major foreign currencies in 1973, combined with high rates of inflation in the supplying nations, boosted unit values for nearly all import categories. The UVI's for crude materials and foods were particularly buoyant. For the year as a whole, crude petroleum prices were about one-fourth higher than the 1972 average; in the fourth quarter, however, prices exceeded the level recorded in the comparable 1972 period by over 50 percent. Unit values for foods increased by 22 percent as a consequence of higher prices for coffee, fish, and cocoa.

The import unit value index for finished manufactured goods advanced by 15 percent. Prices for automobiles, especially those from Germany, soared, but cars from Canada showed only a slight increase. The index for semimanufactures also climbed, partially reflecting hefty price boosts for fuel oil, copper, and woodpulp. The fuel oil UVI for the year averaged one-third higher than in 1972, but the rise between the final quarters of 1972 and 1973 was 72 percent.

Trade Developments by Areas

Canada -- Exports to Canada rose by 21 percent, about the same rate as in 1972, to a total of \$15.1 billion. Automotive products again accounted for about one-third of the overall export gain, reflecting heavy demand for cars on both sides of the border. Machinery shipments increased one-fifth in response to the high level of investment expenditures in Canada. Deliveries of agricultural machinery were especially buoyant. Steel, chemicals, and civilian aircraft also posted large gains.

Imports from Canada expanded about one-fifth over 1972. Industrial supplies, most at sharply higher prices, accounted for about half of the increase. Arrivals of crude petroleum led the advance in these imports, but the inflow of residual fuel oil was also

substantially higher. Lumber entries rose, especially in the first half, before U.S. construction activity began to slow. Purchases of woodpulp and newsprint expanded in response to heavy U.S. demand for paper. Automotive entries moved up 12 percent, with more than half of the increase reflecting greater entries of parts and accessories. The rate of increase in deliveries of new cars and trucks slowed.

The trade deficit with Canada was little changed from the \$2.5 billion imbalance recorded in 1972.

Western Europe -- Exports to Western Europe advanced by two-fifths, reaching \$21.2 billion. Shipments to the Netherlands, West Germany, and the United Kingdom accounted for about half of the increase. Buoyant economic conditions in much of the region stimulated the large U.S. export gains.

Machinery sales rose sharply in response to the high level of European capital investment spending. Sales of computers and parts, especially to the United Kingdom, posted a strong advance. After a falloff in 1972, civilian aircraft deliveries climbed to new levels, boosted by the sale of several wide-bodied passenger transports. Shipments of most types of chemicals advanced. Agricultural exports rose by 66 percent on the strength of expanded shipments of soybeans, corn, and animal feeds.

Imports from Western Europe reached \$19.2 billion, 24 percent above the 1972 total. Entries from West Germany and the United Kingdom accounted for nearly half of the expansion.

Arrivals of consumer goods recorded a strong advance in value, but most of this increase was due to higher prices. Automobile entries declined in quantity although price increases by European manufacturers, in response to the currency shifts and rising costs and greater U.S. demand for more luxurious models pushed the import value nearly one-fifth above the preceding year's total. Purchases of gem diamonds, watches and clocks, and footwear were also higher. Industrial supplies rose on the strength of greater fuel oil, chemical and tire imports. Greater entries of alcoholic beverages and canned hams boosted imports of foods and beverages.

As a result of the U.S. export surge, our traditional trade surplus position with Western Europe was restored. Exports to this region exceeded imports by \$2.0 billion, compared with a small deficit recorded in 1972.

Japan -- Exports to Japan jumped by 67 percent to \$8.3 billion. This rate of increase was three times faster than that recorded in 1972. The gain was centered in shipments of industrial supplies and farm goods. Deliveries of logs and lumber posted a huge increase, to a considerable extent reflecting higher prices. Chemical exports doubled, led by sales of nuclear fuels and plastics. Deliveries of steel scrap tripled in value, although export restrictions imposed in July dampened the growth in the second half. Machinery exports, especially computers and generators, posted a large gain. Farm deliveries more than doubled as corn, soybean, and wheat shipments advanced sharply.

The increase in purchases from Japan slowed abruptly to 6 percent as compared with an advance of one-fourth in 1972; the import total stood at \$9.6 billion. The deceleration was mainly attributable to higher prices caused by the currency realignments which dampened U.S. demand for Japanese goods. Capital goods receipts were boosted by arrivals of machinery, mainly business machines, and small trucks. Consumer goods, which increased by an average of 30 percent annually during the past five years, showed little change. Automobile purchases advanced in value but the quantity was lower than in 1972. Photographic supplies and sound recorders also climbed. These advances were nearly offset, however, by declines in imports of clothing, footwear, and television sets. Among industrial supplies, steel arrivals increased only slightly in value.

The sharp acceleration in exports to Japan, combined with the falloff in import growth, resulted in a sharp contraction in the U.S. trade deficit with that country to \$1.3 billion from \$4.1 billion in 1972.

Developing Areas -- Exports from the United States to the developing areas climbed by more than two-fifths to \$20.6 billion. Shipments to the American Republics and East and South Asia showed especially large increases, led by machinery and chemicals. Agricultural exports to these areas, mainly wheat and corn, were also buoyant. The advance in sales to the Near East consisted largely of construction machinery, civilian aircraft, wheat, and military goods. Large shipments of wheat and civilian aircraft paced the rise in sales to the developing countries of Africa.

Imports from the developing areas expanded by two-fifths to \$20 billion. Purchases of crude petroleum contributed most to the increase. Entries from the American Republics were also buoyed by greater entries of fuel oil, iron ore, and copper. Coffee and machinery also climbed. Purchases from East and South Asia advanced, particularly from Taiwan. Entries of clothing and consumer electronic products registered increases. Coffee and cocoa arrivals from the developing countries in Africa accounted for a large part of the expansion in imports from that area. Greater entries of gem diamonds added to the advance, and also paced arrivals from the Near East.

Eastern Europe -- Shipments to Eastern Europe reached \$1.8 billion in 1973, more than double the preceding year's total. The increase mainly reflected grain sales to the U.S.S.R. Nonagricultural exports to the region, particularly construction machinery and tractors, also expanded but on a much smaller scale.

Imports from Eastern Europe advanced sharply to \$519 million in 1973, 62 percent above the previous year's total. Arrivals from the U.S.S.R. accounted for more than half of the nearly \$200 million increase. Imports of petroleum products from the U.S.S.R., mainly distillate fuel oil, advanced, as did receipts of platinum and palladium and canned hams from Poland.

Appendix A contains summary tables on U.S. and world trade in 1973.

II. TRADE NEGOTIATIONS AND RELATED ACTIVITIES

A. Multilateral Trade Negotiations

The most important event in the international trade field during the year was the launching of the seventh round of multilateral trade negotiations (MTN) under the aegis of the General Agreement on Tariffs and Trade (GATT). The MTN was officially opened in Tokyo in September 1973 when Ministers from over 100 countries signed the Tokyo Declaration calling for negotiations to expand and liberalize world trade and to secure additional trade benefits for developing countries. The principles and guidelines incorporated in the Declaration reflect the results of over five years of preparatory work by nations which account for the bulk of world trade.^{1/}

1. Preparatory Work

The initial impetus for new multilateral negotiations was provided in the Smithsonian meetings at the end of 1971, followed by formal declarations early in 1972 by the United States, Japan and the European Community announcing their intention to initiate and actively support comprehensive negotiations. Additional support from a substantial number of other countries was confirmed at the November 1972 session of the Contracting Parties to the GATT and a Preparatory Committee was established to lay the basis for a meeting at Ministerial level which would officially launch the negotiations in 1973. This preparatory work dealing primarily with such broad basic matters as the objectives, scope and certain guidelines for the negotiations was completed on schedule thus permitting the convening of the Ministerial meeting in Tokyo in September 1973.

Basic preparations for negotiations also moved forward actively during the year in the framework of the regular GATT work program. This program, underway since shortly after the conclusion of the Kennedy Round, was designed in its first stage to provide a factual and analytical basis to facilitate subsequent negotiations by surveying the principal tariff and nontariff measures that restrict trade and result in inequities among trading nations. More recently, efforts have focused on the development of new approaches to eliminate these barriers or to reduce their adverse impact.

a. Industrial Products

During 1973 the Committee on Trade in Industrial Products (CTIP) continued its examination of "various techniques and modalities for effective and comprehensive future negotiations aimed at achieving a further liberalization and expansion of trade in industrial products." This work concerned (1) the analysis and evaluation of various methods for the reduction of tariffs, (2) a search for solutions on an ad referendum basis to problems created by certain nontariff barriers, (3) the examination of the adequacy of existing safeguard provisions, and (4) a consideration of the product sector approach to negotiations. In undertaking these tasks, particular attention was given to the trade of the developing countries and to the implications of suggested negotiating techniques for their trade. The CTIP met in January and May and at its July meeting adopted a report to the GATT Council, which was of assistance to the Preparatory Committee.

Tariffs - Having completed a preliminary analysis of a number of possible negotiating techniques, the CTIP concentrated on the advantages and disadvantages of duty elimination, linear tariff reductions, and tariff harmonization. It was recognized that these techniques could be combined and that others might also be utilized.

A substantial part of the discussion concerned various methods of tariff harmonization. Regardless of the formula chosen to achieve harmonization of rates, high tariff countries would be obligated to make larger tariff concessions than countries with low tariff structures. In order to achieve overall reciprocity in the negotiations, low tariff countries would have to make proportionately larger contributions in other aspects of the negotiations, i.e., nontariff barriers and other trade distorting practices. The United States suggested that a means to more fairly distribute the benefits of a harmonization technique would be to require greater tariff reductions on items for which a country maintains both an MFN and preferential duty rate.

The Working Party on the Tariff Study continued its work in support of CTIP consideration of tariff-reduction techniques. Tariff and trade data tabulations were

^{1/} See Appendix B for list of GATT members and countries participating in the MTN.

generated to facilitate comparative analysis of the effects of tariff negotiating techniques on the tariff structures of the industrialized countries.

Working Party members agreed to supply 1971 and 1972 data to the Secretariat to enable it to update the basic files of detailed trade and tariff information for 13 major industrialized countries (including the nine EC countries as a group) for use by GATT members in preparing for tariff negotiations. Tabulations based on these data comparing post-Kennedy Round tariff levels and imports of these countries for all industrial products, stages of processing, and industrial product categories would also be produced.

The Working Party discussed a U.S. proposal to incorporate and concord production, export, and consumption data with the tariff and trade data in the basic files, based on a Secretariat compilation of responses to a questionnaire to members on the availability of these data. The Working Party agreed, however, to defer further consideration of the proposal to a later date in view of insufficient comparable data and the technical problems involved.

Nontariff Barriers - The CTIP initiated a discussion of the nontariff barriers that countries want included in the negotiations. It was understood that additional restrictions could be proposed for examination at a later stage. The nontariff barriers most mentioned by delegations for inclusion in such a priority list were quantitative restrictions (including embargoes), product standards, government procurement policies, antidumping measures, subsidies and countervailing duties, import licensing, and customs valuation. Not all delegations -- most notably, the European Community -- made specific proposals. However, the European Community did suggest that all nontariff measures that are inconsistent with the GATT but that are legally maintained under the Protocol of Provisional Application should be abolished in the MTN. This raises the question of compensation for the elimination of such measures.

Efforts directed toward the drafting of ad referendum solutions to the problems of selected nontariff barriers continued in several subgroups. A draft code was completed on product standards. Work continued on export subsidies and was initiated on domestic subsidies, countervailing duties, quantitative restrictions, and export restraints. Further consideration of import documentation and consular formalities was suspended until progress reports were received from the Customs Cooperation Council and the Economic Commission for Europe on their efforts to simplify and harmonize import documentation.

Product Standards - The working group met in March and completed the drafting of a standards code in June. This code would establish international rules designed to ensure that government and private actions in the field of standards and certification will facilitate trade and will interfere with it no more than is necessary to accomplish legitimate purposes. Work on the code assumed that it would cover both industrial and agricultural products. Public hearings on the draft code were conducted in the summer of 1972 by the Office of the Special Representative for Trade Negotiations.

The principal U.S. objective in a standards code is to ensure that regional certification arrangements will be open to third country participation. This question, along with a few others, remains to be resolved. If these issues can be settled satisfactorily, countries accepting the code could take the necessary steps to implement it prior to the conclusion of the broader multilateral trade negotiations.

Subsidies and Countervailing Duties - The present GATT provisions on subsidies do not provide an effective deterrent to their use. In the first place, stricter rules apply to nonprimary (mostly industrial) products than to primary (mostly agricultural) products. Secondly, the Declaration of 1960, which bans export subsidies on nonprimary products, applies only to the signatories. Moreover, the Declaration contains no definition of what measures constitute export subsidies and covers only cases in which the subsidy measures result in dual pricing.

The working group met in April and June to consider what measures might be regarded as export subsidies and prohibited. Some delegations made the point that domestic subsidy measures leading to import substitution could be as important as those that stimulate exports and such domestic measures were added for consideration. The key issue is how far countries might be willing to go in limiting their freedom of action with respect to both export and domestic subsidies.

In parallel with its consideration of subsidy measures, the working group took up the question of countervailing duties. (A countervailing duty is the additional

duty assessed on imported products which have received a government bounty or grant. The amount of the countervailing duty is calculated to offset exactly the government assist given to the product.) Some countries favored the drafting of a code on countervailing duties that, inter alia, would necessitate amending U.S. legislation so that countervailing duties could not be imposed unless foreign subsidy measures resulted in domestic injury. The United States has maintained that subsidies, not countervailing duties, are the problem and that, if there were a satisfactory solution on subsidies, any problems with countervailing duties should lessen or even disappear.

Quantitative Restrictions and Export Restraints - In March the working group began considering what might be done in the negotiations about quantitative import restrictions, including embargoes, and export restraints imposed to prevent market disruption in other countries. Much of the discussion focused on the few remaining quantitative restrictions imposed by developed countries on industrial products. No thorough examination was made of export restraints, but most countries maintained that such measures were of the same character and had the same effects as quantitative restrictions and that the same rules should apply to them. The United States took the position that export restraints were in the nature of safeguards and should be considered in that broader context.

Safeguards - Many countries have indicated that new international rules on safeguards are an essential part of the negotiations. Accordingly, the CTIP continued its examination of the adequacy of existing provisions governing such actions. Both sides of this question were considered -- the problem of countries injured by imports and the problem of countries whose interests were adversely affected by safeguard measures imposed on their exports. It was recognized that in any new international rules a balance must be struck between importing and exporting interests.

In order to expedite more detailed consideration of this question, a working group on safeguards was established with the following terms of reference:

To examine, in the context of the work of the Committee on Trade in Industrial Products on various techniques and modalities for effective and comprehensive future negotiations, the adequacy of the multilateral safeguard system of the General Agreement

(i) In the light of present conditions and efforts to achieve and preserve a further liberalization and expansion of trade, and

(ii) for ensuring the maintenance of access, and to report in due course to the Committee on Trade in Industrial Products. In carrying out this task the Group should give due consideration to the adequacy of the multilateral safeguard system of the General Agreement to the special situation, development problems, and needs of developing countries, bearing in mind the objectives of the negotiations agreed at the twenty-eighth session of the CONTRACTING PARTIES.

There was no opportunity for this working group to meet during 1973.

Sectors - Under the sector approach to negotiations, all factors affecting trade in a particular product grouping would be dealt with together, and some or all of the methods for eliminating or reducing tariffs and nontariff barriers could be employed. The CTIP recognized that while this approach may be appropriate for some products, it could be used in other cases to minimize trade liberalization. Partly for this reason there was relatively little support for utilizing the sector approach as a general negotiating method or to select particular product areas for sectoral treatment at an early stage of the negotiations.

b. Agricultural Products

In the GATT Agriculture Committee, activities remained at a standstill despite U.S. efforts to generate action on a constructive program of work. The United States proposed at a January meeting that the Committee undertake a pilot study of the grain-feed-livestock complex, but no agreement could be reached on this proposal or other possible elements of a work program. Further meetings were held in abeyance because member countries could not agree on how to proceed with a substantive examination of agricultural issues. Toward the end of the year, the debate on how work on agricultural problems should proceed took place largely within the framework of the Trade Negotiations Committee (see below).

c. Preparatory Work in the OECD

Several important issues which are expected to figure in the Multilateral Trade Negotiations were discussed during 1973 in the Organization for Economic Cooperation and Development (OECD).

The OECD Executive Committee in Special Session (XCSS) provides a forum where high-level policy-making officials can discuss economic policy issues of common interest to the industrial countries. A particular advantage of this forum is that it enables senior policy-making officials to have a discussion covering the whole range of international economic issues of common concern, and in particular, the interrelationship of trade, monetary and investment policies.

In the trade area, discussions during the year covered such topics as safeguards, the outlook for world agricultural commodity markets and the possible trade distorting impact of investment subsidies. The safeguard issue concerns import restrictions imposed by governments to ease domestic adjustment to rapidly rising imports. The world outlook for agricultural commodities has been a particularly important issue in the context of recent food shortages and rapidly rising food prices. The relationship between investment subsidies and possible trade distortions is both a challenging and important issue for governments, because it is a potential source of political and economic friction among countries.

The Trade Committee of the OECD provides a forum where the United States, Canada, Japan, Australia, New Zealand, and the countries of Western Europe can discuss and consult on trade issues and problems and seek agreement on possible solutions. During the year, work continued on the drafting of an international code on government procurement policies which would reduce discrimination in purchasing by national governments directed against foreign suppliers and goods. The United States believes that such discriminatory procurement policies and practices have become an increasingly important barrier to trade. Progress has been made toward developing a set of principles and guidelines on procurement procedures acceptable to OECD member countries, but disagreement remains over some provisions which the United States considers basic to any meaningful instrument. These are continuing to receive close attention in the OECD Trade Committee.

Preliminary consultations were also held in the Trade Committee on the possible elements of an improved multilateral safeguard system that would be more effective and result in less political strain than the present safeguard provisions of the GATT. The United States has emphasized the desirability of improving the system in ways which would promote international discipline in the use of import relief measures to deal with sudden and disruptive fluctuations in trade flows and which would be equally observed by all the major trading nations. The Committee discussed several possible options for improvements which will be considered by the OECD's XCSS.

The Trade Committee also began a study which could lead to agreement on a set of principles which would serve to control the possible adverse effects of internal policies on international trade. The United States has suggested that such principles might include agreement on national treatment of foreign suppliers, equal access to possible remedies, and the publication of laws and proposed legislation affecting trade. The principles could be implemented through consultations and multilateral review when trade injury is likely to occur.

In looking toward the Multilateral Trade Negotiations, the Trade Committee exchanged views on preparatory steps within OECD member countries for participation in the negotiations, including progress toward Congressional approval of the Trade Reform Act and the general principles and objectives adopted by the EC to guide its participation in the MTN. This discussion provided the Committee's members an opportunity to explain their attitude toward the Multilateral Trade Negotiations and their views on how they should be conducted.

The operation and effectiveness of the generalized system of preferences adopted by a number of OECD countries to promote industrial exports from developing countries were reviewed by the Trade Committee. The United States used this occasion to explain the provisions for establishing a U.S. system of generalized preferences as set out in the proposed Trade Reform Act of 1973.

Other work in the OECD pertinent to the Multilateral Trade Negotiations included the Agriculture Committee's intensified efforts to obtain accurate information on the international supply and demand prospects for key agricultural commodities. This Committee also pushed ahead with a comprehensive review of member country

agricultural policies, the first such review since 1966. This review is scheduled for completion in 1974. In addition, the Joint Working Party of the Agriculture and the Trade Committee met to discuss changes which have taken place in trade practices for agriculture commodities including reports on the effects of various intervention measures taken with respect to butter and wheat.

2. The Opening of Negotiations

Following completion of the work of the Preparatory Committee, a Ministerial meeting was convened in Tokyo and on September 14, 105 countries joined in declaring the trade negotiations officially open. The agreed objectives are to:

- achieve the expansion and ever-greater liberalization of world trade and improvement in the standard of living and welfare of the people of the world, objectives which can be achieved, inter alia, through the progressive dismantling of obstacles to trade and the improvement of the international framework for the conduct of world trade,
- secure additional benefits for the international trade of developing countries...

Toward these ends the Declaration states that the negotiations should aim, inter alia, to:

- (a) conduct negotiations on tariffs by employment of appropriate formulae of as general application as possible;
- (b) reduce or eliminate nontariff measures or, where this is not appropriate, to reduce or eliminate their trade restricting or distorting effects, and to bring such measures under more effective international discipline;
- (c) include an examination of the possibilities for the coordinated reduction or elimination of all barriers to trade in selected sectors as a complementary technique;
- (d) include an examination of the adequacy of the multilateral safeguard system, considering particularly the modalities of application of Article XIX, with a view to furthering trade liberalization and preserving its results;
- (e) include, as regards agriculture, an approach to negotiations which, while in line with the general objectives of the negotiations, should take account of the special characteristics and problems in this sector;
- (f) treat tropical products as a special and priority sector.

The Declaration further provided that the negotiations will deal with all barriers--all products--and be considered as one undertaking with all elements moving forward together. They are to be conducted on the basis of the principles of mutual advantage, mutual commitment, and overall balance of advantages at the highest possible level. Consideration is to be given to improvements in the international framework for the conduct of world trade which might be desirable in the light of the progress in the negotiations. The Ministers, in addition, recognized the interrelationship of progress in the trade and monetary fields. Finally, a Trade Negotiations Committee was established with authority, inter alia, to (a) elaborate and put into effect detailed trade negotiating plans and to establish detailed negotiating procedures, including special procedures for the negotiations between developed and developing countries and (b) to supervise the progress of the negotiations.

3. The Trade Negotiations Committee

The Trade Negotiations Committee (TNC) held its first meeting in Geneva in October to consider its future work. At this meeting substantial agreement was reached on the subjects that would need to be dealt with as the negotiations got under way. There was also consideration of how the work should be organized, the possible subgroups that would be needed, and the calendar of work for the period immediately following. A number of specific proposals were put forward and discussed, but agreement was not reached, principally because of a difference in view between the EC and the other

participants on the way of fitting work on agriculture into the general negotiations. The EC desired that all topics relating to agriculture be assigned to an agriculture committee, with the other groups barred from considering matters principally relating to agriculture. For example, under this approach, tariffs on agricultural products could be considered in the agriculture group only, and the tariff group could not examine tariffs on agricultural products. Other countries did not want to see agriculture insulated from the rest of the work and favored a more flexible, pragmatic approach.

Another factor underlying the inability of the TNC to reach agreement at its October meeting was the feeling in some governments that the stages of concrete negotiations should be deferred until all key negotiating countries had the necessary legislative mandates, and in particular, until the U.S. Congress had acted on the proposed Trade Reform Act. This underlying sentiment somewhat reduced the sense of urgency in some delegations. The United States and most other countries, however, took the position that much useful preparatory work could be done even before all countries had the legislative mandates needed to conclude negotiations, and that such work could perhaps be undertaken by a separate agriculture subgroup without prejudice to the structure of the negotiations per se.

Following the October TNC meeting, there were further informal discussions to try to reach agreement on a calendar of work for the next months. At the end of the year agreement had not yet been reached on certain key points and the discussions were carried over into 1974.

B. EC Enlargement Negotiations

The entry of the United Kingdom, Ireland, and Denmark into the EC on January 1, 1973, led to staged changes in their tariffs and nontariff measures, beginning on January 1, 1974, which will bring these into line with the EC over the next four years. For the United States there are both pluses and minuses involved -- some British, Irish, and Danish tariffs have come down while others have risen. Taking all of this into account, however, the United States determined that adjustments would have to be made in its favor to achieve a reasonable settlement. Accordingly, in March 1973 the United States entered negotiations with the EC under Article XXIV:6 of the GATT to obtain compensation for the large number of tariff concessions previously accorded by the acceding countries which were eliminated by their adjustment toward the level of the EC's Common External Tariff (CXT).

The United States is negotiating with a view to ensuring that those commitments of the acceding countries which are lost in the process of alignment to the CXT of the Six are replaced by significant trade concessions by the EC.

These concessions take the form of certain concessions of the EC of Six extended to the acceding countries (in a number of cases where the three had higher tariffs than the level of the Six for a particular product), as well as new tariff concessions from the EC on selected items of particular value to the United States. As the year ended, the EC had not yet offered compensatory concessions which the United States judged adequate, and negotiations aimed at reaching an equitable settlement were continuing.

C. U.S. Grain Rights Under Standstill Agreements with the EC

The standstill agreements on grains, which go back to the Article XXIV:6 negotiations in 1960-61, concern compensation for loss of trade rights when the original six members formed the European Community, adopting the CXT and Common Agricultural Policy (CAP). In the 1960-61 negotiations the United States and other countries did not consider acceptable the concessions the Community was willing to offer for the withdrawal of tariff bindings held with the individual member countries of the EC for certain agricultural commodities that were later to be subjected to variable levies when the CAP was adopted for those products. The United States, for its part, was unwilling to accept compensation in the form of concessions on other commodities to offset the value of the concessions withdrawn. Therefore standstill agreements were concluded, under which the rights the United States held as of September 1, 1960, were preserved and in which the EC agreed to conduct further negotiations on these commodities after the CAP went into effect.

There are two agreements: one covering quality wheat; and the other covering ordinary wheat, corn, sorghum, rice and poultry. The U.S. rights in poultry under these agreements were the subject of the so-called "chicken war." Following a determination by a GATT panel as to the value of the trade affected, the United States in 1963

suspended tariff concessions on products of particular interest to the Community and equivalent in EC export value to U.S. exports of poultry covered by the standstill agreements.

Negotiations under GATT Article XXVIII were resumed on June 29, 1973. The EC's position was that trade in products covered by the agreements had developed normally since 1962, notwithstanding the introduction of the CAP. On this basis, the EC maintained that nothing of substance remained on which to negotiate.

The counter position advanced by the United States was that the development of trade was not germane to these discussions and that these negotiations were separable from the question of effects of the CAP on U.S. trade; that the Community is required to compensate the United States for the concessions unbound in the standstill agreement. Further, appropriate compensation under Article XXVIII is properly based on the value of the concessions and not on damage to trade.

At the opening session the United States emphasized points relating to its rights under the standstill agreements and understandings reached between the United States and EC during the intervening years, with an analysis of U.S. rights under the standstill agreements to follow in early 1974. It was anticipated that these negotiations on the standstill agreements would proceed in parallel with the negotiations on EC enlargement, which also involve U.S. cereal rights.

D. GATT Examination of Industrial Free Trade Area Agreements
Concluded by the EC with Former EFTA Members and Other
Special Trading Arrangements in Effect or Under Consideration
by the EC

Five agreements establishing industrial free trade areas between the EC and Austria, Iceland, Portugal, Sweden and Switzerland were concluded and notified to the GATT in 1972. These agreements, and one concluded later with Norway, were examined in separate GATT working parties during 1973. A similar agreement with Finland was notified in 1973, and will be examined early in 1974.

There were differences of opinion in the working parties as to whether the agreements were consistent with GATT criteria for free trade areas which required, inter alia, that substantially all the trade between the parties must be covered and that duties and other regulations of commerce maintained by the parties must not be higher or more restrictive than before the formation of the free trade areas. The United States and a number of other countries maintained that the new arrangements were not consistent with the GATT, primarily because they excluded trade in agricultural products and because the system of origin rules embodied in the agreements restricts the scope of free trade in industrial products within the area and limits imports of raw materials and components from third countries.

A free trade area differs from a customs union in that each member country maintains its own separate national tariff on imports from third countries. Rules of origin are therefore commonly utilized to prevent trade deflection -- that is, to prevent third country goods from entering a low duty member country and then being reexported to a high duty member without paying the higher duty. The problem can be handled quite simply for goods either wholly produced within the area or wholly produced outside the area. It is extremely complex, however, for so-called mixed goods produced within the area, i.e. products incorporating imported raw materials and components as well as domestic inputs. If the use of third country materials and components in mixed products is limited more severely by the origin rules than is necessary to prevent trade deflection, the scope of the free trade area will be unjustifiedly reduced and third country trade will be impaired.

The U.S. Government is especially concerned regarding this problem since about half of U.S. exports of industrial products to the EC and the EFTA countries consists of intermediate goods potentially affected by the origin rules in these agreements. The rules appear to be more restrictive than necessary to prevent trade deflection and more restrictive than those formerly applicable to intra-EFTA trade. The United States has therefore requested formal consultations with the parties to the new agreements under Article XXII of the GATT. These consultations are to be initiated in early 1974.

During 1973, the EC of Nine initiated negotiations with some 40 developing countries, primarily in Africa and the Caribbean, with a view to concluding preferential trading agreements prior to January 31, 1975, the date on which existing arrangements

between the EC of Six and many of these countries expire. The developing countries, mainly former French and British colonies whose trade has partly depended upon past EC of Six or British preferences, have taken a unified position of opposing reverse preferences in the new agreements. The United States has opposed these reverse preferences, which would give the EC member countries preferential access to the markets of these developing countries, on the grounds that they are contrary to the developing countries' interests and that they discriminate unjustifiably against U.S. trade with these countries.

Also during the year, the EC of Nine sought to conclude new trade agreements with Israel, Spain, Morocco, Tunisia and Algeria to replace earlier preferential EC of Six and bilateral trading arrangements. Disagreements within the EC and differences between the EC and these Mediterranean countries on the agricultural coverage and other provisions of the new agreements prevented any of these negotiations from being completed by year's end. The United States has initiated formal complaint action in GATT with respect to the discrimination involved in the existing agreements with Spain and Israel. Meanwhile, in the case of citrus products the United States obtained partial compensation from the EC in the form of seasonal easing of the CXT.

E. Withdrawal or Modification of GATT Tariff Concessions

1. Under Article XXVIII

Modifications or withdrawals of tariff concessions may be made under Article XXVIII of the GATT, which sets forth procedures affording countries the opportunity to take such actions, usually every third year. The Article stipulates, *inter alia*, that such changes are to be made only following negotiation and agreement with countries whose trade will be affected. The basic objective of the provision is to maintain a level of tariff concessions no less favorable to the trade of the affected countries than that in effect before the negotiations for modifications or withdrawals.

Under Article XXVIII a country may also reserve its right to renegotiate any tariff concessions at any time during a three year period. Such a reservation gives all other GATT countries the right to renegotiate any of their concessions initially negotiated with the reserving country. The United States made such a reservation for the three year period commencing on January 1, 1973. This technical step, which followed a similar reservation by the EC, gave the United States more flexibility to negotiate tariff changes which might be deemed desirable, but did not of itself indicate that any such changes would be made. Other reserving countries were Australia, Austria, Bangladesh, Denmark, Finland, India, Israel, New Zealand, South Africa and Turkey.

Negotiations under Article XXVIII were in progress in 1973 with India, Norway, New Zealand, South Africa, Sri Lanka, and Sweden involving U.S. exports of a wide range of products with a total value of over \$34 million. South Africa, India, and New Zealand account for the bulk of U.S. trade covered by the ongoing negotiations. In addition, Indonesia converted to the Brussels Tariff Nomenclature system and contracting parties to the GATT, including the United States, began to assess the effect that Indonesia's tariff changes will have on concessions of interest to them. Negotiations for compensation will commence once these assessments are completed.

2. Article XIX Emergency Actions

Modifications or withdrawals of tariff concessions may be made under the GATT if, as a result of unforeseen developments, imports are increasing in such quantities and under such conditions as to cause or threaten serious injury to domestic producers. Article XIX stipulates that before such action is taken, written notice must be given and an opportunity for consultations afforded to countries having a substantial exporting interest in the products affected. Where agreement can not be reached on the compensatory measures to be taken to maintain the same general level of concessions, an affected country may withdraw, after notification to GATT, substantially equivalent concessions in order to restore the balance.

While the United States has utilized this Article to cover tariff adjustments in escape clause cases, no new products were added in 1973. The only Article XIX notification during 1973 in which concessions granted the United States were impaired involved a temporary Canadian charge above the concession rate on imports of fresh sweet cherries. At year's end, consultations regarding compensation were continuing.

III. NEW U.S. TRADE LEGISLATION

A key element in the Administration's efforts to secure reform of the world economic system was the preparation and submission to Congress of proposals for comprehensive new trade legislation. As individuals, Americans have a major stake in these proposals in terms of the new and better jobs involved and the availability of goods at lower prices. In terms of the country's overall objectives of peace and prosperity, new trade legislation will have an important effect on the Administration's ability to:

- Negotiate a more open and equitable international trading system, including access to both markets and supplies
- Deal effectively with disruptive increases in imports that injure domestic industries, firms and workers
- Combat unfair competitive practices
- Manage and utilize trade policy more effectively in such special areas as balance of payments adjustment, inflation, short supply problems, etc.
- Enable the United States to obtain new gains from trade while also expanding the potential for poorer countries to meet their development needs.

The President submitted the "Trade Reform Act of 1973" to the Congress on April 10, 1973. The House Committee on Ways and Means held 24 days of Administration and public hearings, receiving testimony from 369 witnesses. Following about nine weeks of mark-up in Executive session, the Committee reported the bill (H.R. 10710) to the House of Representatives on October 10. The House conducted three days of floor debate and passed the bill by a large majority of 272-140 on December 11.

The Trade Reform Act as passed by the House contained the following principal provisions:

Title I contained the basic authorities for U.S. participation in and implementation of the results of the new round of comprehensive multilateral trade negotiations. The main provisions were: 1) five-year authority to enter into trade agreements with foreign countries to eliminate, reduce, impose, or increase tariffs, subject to specific limits, or to continue existing duties or duty-free treatment; 2) a Congressional mandate to negotiate agreements with foreign countries during the next five years to reduce or eliminate nontariff barriers, with a new optional method for implementing such agreements through a Congressional veto procedure; 3) other authorities for improved management of trade agreements policy, including authority to reduce or increase import barriers to help deal with serious balance of payments situations; to reduce import barriers as an anti-inflation measure; to "compensate" foreign countries for increases in U.S. tariffs or other import restrictions imposed as import relief measures; to enter into limited supplemental trade agreements following expiration of the basic tariff authority; to withdraw, suspend, or terminate trade agreement concessions; and a Congressional directive to seek reform of certain international trading rules and practices under the GATT; and 4) improved procedures and mechanisms for Congressional and public participation in the formulation, implementation, and review of the trade agreements program.

Title II recognized that present programs and procedures under the Trade Expansion Act of 1962 (TEA) for import relief and adjustment assistance are inadequate to facilitate orderly and timely adjustment by particular segments of the economy to increased import competition. The principal changes in the present "escape clause" provisions were: 1) more liberal eligibility criteria for import relief; 2) enumeration of certain factors the Tariff Commission must take into account in determining serious injury due to imports and the President must consider in determining whether or not to grant import relief; 3) a specific order of preference for the form of relief and expansion of available remedies; and 4) stricter time limits on Presidential determinations and on the duration of relief, and provision for its phase-out. Basic revisions of the current adjustment assistance programs were: 1) easier access criteria to worker and firm adjustment assistance; 2) simplified procedures to expedite the processing of adjustment assistance petitions; and 3) improved worker benefit payments and other adjustment allowances and services.

Title III revised the four existing statutes which authorize measures against unfair trade practices of foreign countries: 1) replacement of section 252 of the TEA by new, stronger authority to retaliate against "unjustifiable" or "unreasonable" foreign import restrictions or discriminatory trade policies which restrict or burden U.S. commerce, including extension of the authority to cover foreign export subsidies; 2) various amendments of the Antidumping Act, 1921, including time limits on dumping determinations, prior hearing requirements, detailed statements on determinations, and a number of technical changes in definitions; 3) revisions of the countervailing duty law under section 303 of the Tariff Act of 1930, including a time limit on determinations, extension to duty-free imports with an injury determination, some discretionary authority in the imposition of countervailing duties, and judicial review of negative determinations; 4) amendments of section 337 of the Tariff Act of 1930 with respect to unfair methods of import competition involving patent infringement.

Title IV contained authority for the President, subject to certain conditions and procedures, to extend nondiscriminatory (MFN) tariff treatment to countries currently subject to Column 2 rates of duty, either through bilateral commercial agreements or multilateral trade agreements such as the GATT, subject to a Congressional veto procedure.

Title V contained authority for the President to fulfill the U.S. international commitment to participate with other major developed countries in the granting of generalized tariff preferences to imports from developing countries for a period of 10 years, subject to various procedural requirements and limitations including a "competitive need" ceiling on the extension of duty-free preferential treatment.

The major changes introduced by the House in the Trade Reform Act as submitted by the Administration were: 1) placing specific limits on the amount of duty reductions or increases permitted under the basic tariff authority; 2) removal of the advance authority requested for implementation of agreements relating to certain specific non-tariff barriers, inclusion of a provision for conducting nontariff barrier negotiations on a product sector basis to the extent feasible and appropriate to achieve equivalent competitive opportunities on a product sector basis as a principal negotiating objective; 3) establishment of a formal liaison mechanism between the Executive Branch and the private sector for the multilateral trade negotiations; 4) different eligibility criteria for import relief than requested by the Administration and a specific order of preference for the form of relief; 5) inclusion of a firm adjustment assistance program, with particular emphasis on small and medium-sized enterprises; 6) retention of worker adjustment assistance as a separate program; 7) extension of the retaliation authority to foreign subsidies on exports to the United States, which substantially reduce sales of competitive U.S. products; 8) placing specific time limits on the authority providing the Secretary of the Treasury discretion in imposing countervailing duties (i.e., four-year discretion in most cases if imposition would be likely to seriously jeopardize satisfactory completion of the multilateral trade negotiations, a one-year limit in the case of imports produced by government-owned or controlled facilities of a developed country if the investment in or operation of the facilities is subsidized); 9) prohibition of the extension of nondiscriminatory tariff treatment under Title IV, extension of credits, credit guarantees, or investment guarantees under a U.S. Government program, or conclusion of commercial agreements with a Communist country during any period the President determines that the country denies its citizens freedom of emigration or imposes unreasonable financial barriers to such emigration; and 10) placing specific time limits on various authorities and actions by the President and inclusion of additional provisions for Congressional oversight and public participation throughout the bill.

In most respects the Trade Reform Act as passed by the House was consistent with the original purposes contained in the proposals by the Administration. In some respects the House version represented an improvement of the Administration's submission. A few areas in the bill as passed by the House were of major concern to the Administration, however, including in particular the restriction on extending nondiscriminatory tariff treatment and credits and credit guarantees to Communist countries under the so-called Jackson/Vanik amendment on emigration policies, and the time limits on discretion to impose countervailing duties. As of the end of 1973, hearings had not yet been scheduled on the legislation by the Senate Committee on Finance.

IV. CONSULTATIONS AND COMPLAINT ACTIONS ON TRADE ISSUES

WITH MAJOR TRADING PARTNERS

A. Consultation and Complaint Action Under GATT

Resolution of differences on trade issues through consultation is a basic principle of the GATT. Thus Articles XXII and XXIII of the Agreement provide that a contracting party which considers that a benefit that should accrue to it is being nullified or impaired or that the attainment of any objective of the Agreement is being impeded may seek consultations with the parties concerned. If no adjustment is reached, a complaint may then be instituted, after which the Contracting Parties (acting as a whole) investigate the matter and may make a recommendation or ruling as to whether the complainant can suspend concessions or obligations with respect to the other party involved. In practice, the differences have been resolved without resort to such suspensions, sometimes through the use of conciliation panels of independent experts who investigate the matter and make recommendations.

The United States was involved in several consultation/complaint actions in 1973. Discussions carried over from the previous year produced agreement by the United Kingdom to a timetable for elimination of its quotas on imports from dollar area countries of fresh grapefruit, single-strength orange and grapefruit juice, rum, cigars, and frozen or canned grapefruit segments. Similarly an agreement was reached with France on a timetable for phasing out quotas on dried and dehydrated vegetables, dried prunes, canned tomatoes, tomato juice and canned fruit except pineapple. In the course of the year, however, the United States opened Article XXII consultations with the EC concerning the latter's decision to adopt a system of minimum import prices violating GATT bindings the United States has on citrus juices and canned peaches and impairing the UK and French liberalization actions taken earlier in the year on those items.

Consultations were held with Italy in March 1973 regarding rebates of taxes on exports of fabricated iron and steel products under Italian Law 639. Italy, however, gave no indication that it was prepared to eliminate or take any action with respect to these rebates, which the United States regards as export subsidies. Countervailing duties have been imposed on U.S. imports of these products, but U.S. exports to third country markets are still adversely affected by these tax rebates.

The United States also requested consultations under Article XXII concerning the rules of origin under the association agreements between the EC and Norway, Austria, Switzerland, Finland, Iceland, Portugal, and Sweden respectively (Chapter II-D above), but those consultations were not opened until 1974.

Two sets of complaints concerning export incentives and involving the United States and the European Community continued in 1973. In May the European Community requested that its complaint against the Domestic International Sales Corporation (DISC) provisions of the U.S. Internal Revenue Code of 1954, as amended, be referred to the GATT Contracting Parties. Agreement was reached in the GATT Council to establish a panel to examine the complaint. Similarly, the United States requested that panels be set up to examine its complaints under Article XXIII against France, Belgium, and the Netherlands on certain of their tax practices which the United States considers to be export subsidies prohibited under the GATT. At the end of the year, the various parties to the complaints were in the process of getting agreement on the membership of the panels. Each panel was to have identical members, although each complaint will be discussed separately.

The EC in July 1973 also requested consultations with the United States under Article XXIII on the confectionary sugar import quota (including chocolate crumb) contained in Section 206(d) of the Sugar Act Amendments of 1971 (PL 92-138). These consultations had not been held by the end of the year.

B. Bilateral U.S.-EC Consultations

The United States and the Commission of the European Community continued to hold their semiannual consultations between senior officials at which a variety of common economic problems and differences are discussed. The sixth round of these consultations took place in Brussels in March. The talks were intensive and covered a broad range of topics, beginning with the upcoming multilateral trade negotiations, where the United States stressed the necessity of preparing converging, not diverging, negotiating positions. The United States also emphasized the need to move rapidly to a satisfactory

conclusion of negotiations on compensation due for impairment of trade rights resulting from the entry of the United Kingdom, Denmark, and Ireland into the European Community (Chapter II B above). The United States also expressed its concern over aspects of the new trading arrangements between the EC and those EFTA countries which did not join the Community. When energy was discussed, both sides exhibited a strong desire to cooperate on the supply problem. The United States indicated to the EC that it was interested in regular exchanges of views in the industrial policy area. There was a lengthy discussion of EC preferential trading arrangements in which the United States focused on facilitating the elimination of reverse preferences and on protecting its trade interests adversely affected by special preferences granted by the EC.

In October, the talks once again ranged over trade policy, industrial policy, and energy problems. The United States continued to urge a prompt and satisfactory solution to the GATT negotiations following the enlargement of the EC. These and other talks on trade policy issues served to clarify some positions and misunderstandings. In the industrial policy field, the EC sought to assure the United States that EC efforts to develop a coherent and rational policy would not discriminate against U.S. industry. The world protein supply and demand situation was also discussed, with the United States stressing its call for a World Food Conference to focus on food supplies, food aid, and assistance to less developed countries to increase agricultural production. The delegations also exchanged views on energy and the oil supply crisis.

During the year bilateral consultations were also held with the European Community on the U.S. export control program for ferrous scrap. These discussions furnished an opportunity for the United States to explain its controls, which were necessary to relieve the impact on U.S. industry of worldwide scrap shortages and rapidly rising scrap prices. Ways were explored to apply the export controls so as to minimize their adverse effects on trade and on industry in other countries.

In the late summer and fall of 1973, U.S. and EC officials conferred several times in Washington and Brussels on the effects of commodity shortages and the rapidly rising prices resulting from them. As a result of these meetings officials were able to develop better techniques for obtaining and sharing information on the production and export of major commodities.

C. Bilateral Consultations with Japan

Extensive bilateral consultations with Japan were held in 1973 to discuss what further steps each country could take to help reduce the U.S. trade deficit with Japan - a record \$4.1 billion in 1972 - to a more manageable size. As it became apparent by mid-year that the deficit was being sharply cut, the emphasis in the bilateral consultations shifted to multilateral issues such as the forthcoming trade negotiations, monetary reform and energy.

In bilateral consultations held in Tokyo in February and in Washington in May, the United States urged Japan to expand upon the steps taken in 1972 to reduce barriers to imports such as high tariffs, quantitative import restrictions, closed government procurement practices, and other nontariff barriers. Among the measures taken by Japan that were responsive to U.S. requests were undertakings to:

- eliminate all remaining quantitative import restrictions on computers, computer peripheral equipment, and computer parts sometime in 1975, with the possibility of meaningful partial reductions on such restrictions in the interim;
- eliminate quantitative import restrictions on integrated circuits sometime in 1974; and
- expedite the handling of U.S. complaints about Japanese sanitary and labelling regulations.

Japan responded negatively to U.S. requests for the elimination of quantitative import restrictions on oranges, citrus juices, leather, and leather shoes, but increased the level of the quotas. No action was taken on tariffs on certain products of particular export interest to the United States, but other products of interest were covered in the unilateral reduction of a large number of tariff items made by Japan on April 1.

Bilateral trade issues were discussed during the ninth meeting of the Cabinet-level Joint U.S.-Japan Committee on Trade and Economic Affairs in Tokyo in July and again during the President's meeting with Prime Minister Tanaka in Washington July 31-August 1.

However, in view of the rapidly improving U.S. trade position globally and vis-a-vis Japan, the emphasis at these meetings shifted from U.S.-Japan bilateral trade to such mutual goals as the further reduction of world trade barriers in multilateral trade negotiations, the reform of the international monetary system, and the assurance of a fair and adequate distribution of energy supplies.

D. United States-Canada

During 1973 the United States engaged in bilateral discussions with Canada on specific trade irritants. At Canada's request, consultations were held under GATT Article XXII concerning U.S. imposition of a countervailing duty on imports of Michelin tires produced in subsidized Nova Scotia plants.

In June the Canadians invoked GATT Article XIX to impose a temporary import surtax on fresh sweet cherries. Later in the year they imposed a surtax on beef and cattle imports. The United States protested in both cases and requested consultations for arriving at appropriate compensation. These discussions were continued into 1974.

As a part of its budget submission in February 1973, the Canadian Government unilaterally reduced tariffs on a wide range of foodstuffs and consumer goods. The step was taken primarily to dampen inflationary pressure on consumer prices. The cuts were to remain in force for one year, with any future decision to make the cuts permanent to be made in the context of the MTN and after reviewing the position of domestic producers.

E. Consultations with Latin American Countries

In the Organization of American States (OAS), several consultations on trade matters were held on a regional basis with the Latin American countries. The first of these consultations took place in June 1973 at the U.S. country review, when it was agreed that there were important areas of convergence between the United States and Latin America, particularly in the broad field of the forthcoming MTN: removal of barriers against agricultural trade, elimination of nontariff barriers and of reverse and regional preferences. Thereafter, two more consultations were held in the Special Committee for Consultation and Negotiation (SCCN), a subsidiary body of the OAS, to discuss not only the MTN but also the broad outlines of the Trade Reform Act of 1973, with particular emphasis on the provisions for a generalized system of preferences (GSP) contained in that bill. At these consultations, Latin American representatives noted that the scope of the proposed GSP is much less than the Latin American countries had hoped.

Apart from these regional consultations, bilateral meetings with Brazilian and Mexican representatives were held in Brasilia, Mexico City, and Washington, D.C. Also, as the MTN has progressed, consultations have taken place in Geneva with interested Latin American delegations on an informal basis. Ambassador Harald B. Malmgren offered at the September meeting of the SCCN to regularize the consultations in Geneva in a manner that the Latin Americans might suggest.

V. TRADE RELATIONS WITH COUNTRIES NOT RECEIVING

NONDISCRIMINATORY U.S. TARIFF TREATMENT

Considerable progress was made in 1973 in the normalization of bilateral commercial relations with the socialist countries of East Europe, the U.S.S.R. and the People's Republic of China (PRC). The acceleration of trade between the United States and the centrally planned economies of the East during 1973 yielded a trade surplus for the American economy of \$1.9 billion.

	<u>USSR</u>	<u>Other Eastern Europe</u>	<u>PRC</u>	<u>Total</u>	<u>Change from 1972</u>
	----- (Millions of Dollars) -----				
U.S. Exports	1,190	606	690	2,486	+182%
U.S. Imports	<u>214</u>	<u>305</u>	<u>64</u>	<u>583</u>	<u>+ 63%</u>
Balance	976	301	626	1,903	+263%

The rapid growth of U.S. trade with the U.S.S.R. is the direct result of improvement in overall U.S.-Soviet relations. In Washington in June, President Nixon and General Secretary Brezhnev held summit meetings during which a U.S.-U.S.S.R. Trade and Economic Council was endorsed and the opening of a U.S. Commercial Office in Moscow and of a Soviet trade representation in Washington was approved.

In Moscow in the fall, official discussions took place in connection with the third session of the U.S.-U.S.S.R. Commercial Commission, a body established by the two countries at the May 1972 Moscow Summit meeting. Included in the broad range of matters explored was the further improvement of facilities for the conduct of business on both sides.

A cloud on progress arose toward the end of the year, however, when the House of Representatives passed a trade bill with provisions making the extension of nondiscriminatory U.S. tariff treatment and future Eximbank credits to the U.S.S.R. and Eastern European countries conditional on their emigration policies. If enacted into law, these restrictions could shift a large volume of future orders from the United States to Western Europe or Japan, restrict progress toward normalized economic relations with the U.S.S.R. and Eastern Europe, and make more difficult the achievement of U.S. goals for world peace. (See Chapter III.)

Major intergovernmental trade discussions resulting in the reduction of certain impediments to trade and accelerated trade promotion activities characterized U.S. relationships with Eastern European countries in 1973. Economic-trade talks were held in Poland, Hungary, and Czechoslovakia, and in the United States with Romania and Bulgaria. In Poland, the U.S. delegation attended the third session of the American-Polish Trade Commission, where progress was made on business facilitation questions as well as on maritime matters and industrial cooperation. The Hungarian talks centered on their interest in technological and production links with U.S. companies and the discussions in Prague on settling outstanding financial claims. One of the highlights of the visit of the Romanian President to the United States was the issuance of a joint statement on economic, industrial and technological cooperation which includes a provision establishing a Joint Economic Commission. During the Bulgarian visit, specific steps for improving our economic and trade relations were discussed.

U.S. exports to China, mainly agricultural products, increased from zero in 1971, the year the trade embargo was lifted, to \$64 million in 1972, to \$690 million in 1973. Two developments in 1973 -- the opening of U.S. and PRC Liaison Offices in the respective capitals and establishment of the National Council for U.S.-China Trade -- will greatly facilitate the entry of American business into PRC markets and Chinese efforts to expand their exports to the United States. A delegation from the executive board of the National Council was invited to China in 1973. This was the first visit representing general U.S. business interests to China in over 20 years.

VI. EXPORT CONTROLS ON PRODUCTS IN SHORT SUPPLY

The coincidence of a sharp increase in foreign demand for U.S. agricultural commodities together with severe shortages in alternative sources of supply necessitated the imposition of export control and monitoring programs for key agricultural commodities. Export pressures combined with controls on domestic prices also led to domestic supply shortages for a number of nonagricultural commodities, including steel scrap, which was put under export control in July. Shortages of petroleum and products, while of a different origin, led to export licensing controls in December (see Chapter IX-C).

A. Agricultural Sector

There were no commodities under short supply control prior to June 27, on which date controls were imposed on the export of soybeans, cottonseed, and various meal and oil products of soybeans and cottonseed. Such action was taken because of the extremely tight supply situation for soybeans as indicated by a 65 percent increase in prices from the April level and more than 200 percent from the level a year earlier. A similar situation existed for soybean products and cottonseed. Subsequently, the export of other vegetable oils, animal feed and livestock protein feeds was limited to quantities not to exceed the quarterly rate of 1972 exports.

Improvements in the domestic and foreign supply situation made it possible by October 1, 1973, to discontinue controls on the export of all agricultural products. However, increasing concern over the supply-demand situation with respect to fertilizers and fertilizer materials resulted in the imposition of a monitoring program designed to supply up-to-date information relating to production, inventories and domestic and foreign sales of 10 commodity groupings in this area. None of these, however, was brought under export licensing controls. A similar monitoring program for agricultural products, some of which were previously under export controls, was also established in 1973 and continued into 1974.

The initial negative reaction on the part of our trading partners to the imposition of export controls on soybeans and related products was muted by the equitable operation of the program itself and the U.S. pledge to terminate the controls as quickly as possible. The export licensing provisions allowed each exporter to ship a fixed percentage of the exports he had contracted before a fixed cutoff date, thus sharing the burden equally among exporters. In addition, total exports of these products were substantially larger in 1973 than in 1972.

B. Ferrous Scrap

In view of domestic scarcity of iron and steel scrap resulting from an abnormal foreign demand and with a 100 percent increase in domestic prices over the previous year, controls were imposed on the export of ferrous scrap on July 2, 1973. Under the program, all ferrous scrap export orders for 500 short tons or more entered into on or before July 1, 1973, and scheduled for shipment between July and December 1973, were eligible for licensing. Orders for less than 500 short tons initially were eligible for licensing regardless of when they were entered into. This latter provision was intended primarily to cover the special problems presented by U.S. ferrous scrap trade with Canada and Mexico, much of which involved small orders of less than 500 short tons contracted for on a spot basis, rather than the large volume, longer-term contracts usually entered into by overseas buyers. However, sharply increased use of under-500 short ton orders by overseas buyers following the imposition of controls resulted in the discontinuance of licensing of post-July 1 under-500 ton orders on September 12, 1973, and the establishment of special quotas for export licenses covering Canadian and Mexican orders for the final quarter of 1973.

Even with the licensing program, U.S. exports of ferrous scrap reached an alltime high of 11.3 million short tons in 1973 and by the end of the year the United States was the only country exporting significant amounts of scrap. The previous record for exports was 10.4 million short tons in 1970.

On November 28, it was announced that for the first quarter of 1974, the previous system of licensing against outstanding contracts entered into on or before July 1, 1973, would be superseded by export quotas established on a country basis. The overall quota for the first quarter of 1974 was set at 2,100,000 short tons including a reserve of 100,000 tons set aside for contingencies.

VII. U.S. ACTION TO DEAL WITH IMPORT COMPETITION
AND UNFAIR TRADE PRACTICES

A. Relief for Industries Suffering from Import Competition

U.S. trade legislation has for many years provided means by which industries threatened with or suffering serious injury from import competition may obtain relief. The first step in the process is a request by representatives of the industry to the Tariff Commission for such relief. Thereafter the Commission undertakes an investigation to determine whether the statutory criteria for granting such relief are met. Under Title III of the Trade Expansion Act of 1962 (TEA), the President may increase tariffs or impose other restrictions on imports if the Tariff Commission reports to him a finding that "as a result in major part of concessions granted under trade agreements, an article is being imported into the United States in such increased quantities as to cause, or threaten to cause, serious injury to the domestic industry producing an article which is like or directly competitive with the imported article." In cases of this type, commonly referred to as escape clause actions, the President also may provide relief in the form of adjustment assistance for firms and workers in the industry.

Escape action tariff relief proclaimed in earlier years remained in effect during 1973 on imports of certain ceramic table articles, pianos other than grands, and window glass. In the case of pianos, the escape clause rate was scheduled to terminate at the close of February 20, 1973, but was extended for a year following a report by the Tariff Commission under section 351(d)(3) that such termination would impair the economic condition of the domestic industry. In the case of window glass, the second stage of a scheduled phase out of tariff relief went into effect January 31, 1973, and since no petition was received from the industry in 1973, restoration of the trade agreement rates in January 1974 was assured.

During the year, the President received from the Tariff Commission reports on its investigations in two escape clause cases. With regard to brass wind musical instruments, the Commissioners reported on January 26 that they were equally divided (3-3) as to whether the statutory criteria had been satisfied. In such circumstances the President has the authority to accept the views of either set of Commissioners as the findings of the Commission, and in the brass wind musical instruments case he accepted the negative finding.

On July 30, the Tariff Commission reported an affirmative finding on antifriction ball bearings other than those under 9 millimeters in outside diameter and those imported from Canada under the provisions of the Automotive Products Trade Act of 1965 (APTA). No finding was made on parts or on antifriction balls and ball bearings entering duty free under the APTA. A negative finding was reported on antifriction balls other than those entering under APTA and on ball bearings under 9 millimeters in diameter, often called miniature bearings. After a careful examination of the Commission's report as well as other material, the President on September 28 requested the Commission, under section 351(a)(4) of the TEA, to prepare a supplemental report, notably to cover certain important developments affecting trade trends and the competitive situation of the domestic industry in 1973. Under the TEA this supplementary report was to be submitted before the end of January 1974.

B. Adjustment Assistance for Workers

Workers who experience unemployment or underemployment as a result of increased import competition may be certified eligible to apply for adjustment assistance under Title III, Chapter 3 of the TEA. Such assistance can include cash readjustment and relocation allowances, counseling, training, testing and job placement.

Workers may petition the Tariff Commission for a determination of injury if they feel they have become unemployed or underemployed as a result of increased imports, or are so threatened. The Commission will then make an investigation to determine whether increased imports, caused in major part by concessions granted under trade agreements, were the major factor causing or threatening to cause the unemployment or underemployment of a significant number or proportion of the petitioning workers. If the Commission makes an affirmative finding, the Department of Labor may then certify the workers eligible to apply for adjustment assistance. Additionally, in all worker cases where the Commission has been equally divided and has made no finding regarding injury, the President has accepted the affirmative view and has authorized the Department of Labor to certify the petitioning workers eligible to apply for adjustment

assistance. The Department's certification will specify the date the workers' unemployment or underemployment began and identify the appropriate group of adversely affected workers.

In addition to cases involving only workers, the President may authorize, as part of the relief granted to an industry after an affirmative Tariff Commission finding in an escape clause case that workers in the industry may petition the Secretary of Labor directly for adjustment assistance. If the Secretary subsequently determines that injury has occurred in accordance with the criteria of the Act, the Department of Labor will certify the workers eligible to apply for adjustment assistance.

Experience 1962-1973 - The Tariff Commission issued determinations on 214 worker petitions, representing 92,000 workers, between October 1962 and December 1973. The Commission denied six worker petitions during the first seven years of the TEA before issuing the first affirmative finding in November 1969. Since November 1969 the Commission has affirmed 37 petitions representing 19,500 workers and has denied 131 petitions representing 50,200 workers. The Commission made no finding on 40 petitions representing 20,000 workers, being equally divided on whether injury occurred in accordance with the criteria of the Act. The President accepted the affirmative views in 39 of the equally divided cases and authorized the Secretary of Labor to certify the 19,800 workers involved as eligible to apply for adjustment assistance. One petition was awaiting Presidential action at the end of 1973.

Nearly three-quarters of the determinations issued by the Tariff Commission during 1962-1973 were on petitions submitted by workers employed in three industrial groups -- nonrubber footwear, electrical equipment, and textiles -- as follows:

Ninety-eight petitions were filed on behalf of 24,000 workers employed in the non-rubber footwear industry. Sixty-two petitions representing 13,000 workers were denied and 35 petitions representing 10,700 workers were certified. One petition representing 300 workers was awaiting Presidential action at the end of 1973.

Thirty-six petitions were filed on behalf of 24,300 workers in the electrical equipment industry. Twenty-two petitions representing 10,200 workers were denied and 14 petitions representing 14,100 workers were certified.

Twenty-three petitions were filed on behalf of 13,400 workers in the textile industry. Seventeen petitions representing 10,500 workers were denied and six petitions representing 2,900 workers were certified.

From March 1970 to December 1973, 17 petitions representing 4,300 workers were filed directly with the Department of Labor pursuant to Presidential authorization that workers in an import impacted industry may apply for adjustment assistance. About 4,100 workers were certified eligible to apply for adjustment assistance as a result of 15 petitions originating from the piano, sheet glass, marble, and earthenware industries. Two petitions representing 200 workers employed in the piano and earthenware industries were denied, having been determined not to meet the requirements of the Act.

A total of 43,500 workers represented by 91 petitions were certified by the Department of Labor as eligible to apply for adjustment assistance during 1969-1973. Fifty-five percent of the certified workers were employed in the Northeastern United States, 18 percent in the South, 21 percent in the North Central region, and 5 percent in the West.

Experience 1973 - During 1973 the Tariff Commission issued determinations on 54 petitions filed on behalf of 22,500 workers. The Commission affirmed 10 petitions filed on behalf of 6,600 workers, and denied 37 petitions filed on behalf of 11,800 workers. The Commission was equally divided on seven petitions representing 4,100 workers; on six of the equally divided petitions the President accepted the affirmative view as the finding of the Commission, and one petition was awaiting Presidential action at the end of the year.

The Department of Labor issued 21 certifications in 1973 covering 11,500 workers. Twenty of the certifications were based upon petitions filed with the Tariff Commission on behalf of 11,370 workers in the nonrubber footwear, electrical equipment, automobile equipment, and textile industries. One petition was certified on the basis of a petition filed directly with the Department of Labor on behalf of 130 workers in the marble industry. One petition representing 200 workers in the earthenware industry was denied by the Department of Labor, having been determined not to meet the requirements of the Act.

At the end of the year four worker petitions were under investigation by the Tariff Commission and one petition was awaiting Presidential review. (See Appendix C for a summary of action taken on petitions for worker adjustment assistance.)

C. Adjustment Assistance for Firms

Adjustment assistance for firms seriously injured or threatened with serious injury by increasing imports is authorized under Title III, Chapter 2 of the TEA. Assistance may consist of direct loans, loan guarantees, technical aid and tax carrybacks.

In 1973, the President received nine reports from the Tariff Commission on the results of its investigations following petitions by firms seeking findings which would qualify them as eligible to apply for adjustment assistance. In two cases a majority of the Commissioners found affirmatively and in one other involving a tie vote the President accepted the affirmative views as the findings of the Commission. In six cases, the Commission found that the firms did not meet the statutory criteria for establishing injury. In addition, during 1973 one firm sought certification of eligibility to apply for adjustment assistance as a member of the marble and travertine products industry, which had earlier been found to be threatened with serious injury under the escape clause provisions of the TEA.

In the course of the year, the Department of Commerce certified nine firms as eligible to apply for assistance and denied the application of one firm. The adjustment proposals of four firms, which had earlier been certified eligible to apply, were also approved, and a proposal modification was certified for one firm whose proposal for economic recovery had been previously approved. As a result of the proposal certifications and the approved modification, \$9.2 million of financial and technical assistance was authorized in 1973. Employment in the four companies whose proposals were certified amounts to approximately 1,700. In addition, technical assistance to aid in developing viable adjustment proposals was provided for the benefit of several firms during the year.

The adjustment proposals approved in 1973 were the following:

(1) \$325,000 of financial assistance to a producer of pianos for plant expansion and new cost-saving capital equipment;

(2) \$7 million of financial assistance to enable a sheet glass manufacturer to expand its glass processing capacity and to construct a float glass plant;

(3) \$750,000 of financial and technical assistance to a manufacturer of stainless steel table flatware to help the firm re-establish its viability and competitive position in its industry and to broaden its market base by developing and producing new products; and

(4) over \$900,000 of financial and technical assistance to an apparel manufacturer for engineering improvements to increase productivity and reduce costs, to expand its marketing activities, and to meet its need for additional working capital.

D. Implementation of Section 22 of the Agricultural Adjustment Act

Section 22 of the Agricultural Adjustment Act of 1935, as amended, directs the President, on the basis of an investigation and report by the Tariff Commission, to regulate imports whenever he finds that such imports render or tend to render ineffective or materially interfere with any domestic production and marketing control program, price support, or other program or operation relating to agricultural commodities undertaken by the Department of Agriculture. The legislation also provides for the modification of import restrictions established under its terms to meet changing conditions. Products subject to Section 22 quotas in 1973 were: wheat and wheat products, cotton of certain staple lengths, cotton waste and cotton picker lap, peanuts and certain dairy products.

During 1973 there were five Presidential Proclamations which temporarily modified quotas on certain dairy products. These actions included three increases in the nonfat dry milk quota by an aggregate of 240 million pounds. These three actions were in addition to the 25 million pound increase authorized by Proclamation 4177 of December 30, 1972. The three Proclamations were: No. 4216 authorizing 60 million pounds from May 11 through June 30; No. 4230 authorizing 80 million pounds from July 19 through August 1; and No. 4238 authorizing 100 million pounds from August 29 through

October 31. Imports under these actions were on a first-come, first-served basis and the quantities authorized were almost completely utilized.

Presidential Proclamation 4213 of April 25, 1973, authorized a temporary 50 percent increase in the cheese import quotas for a period ending July 31, 1973. The total increase amounted to about 63.9 million pounds of cheese, which was allocated under the licensing system operative for the regular cheese quotas. Approximately 47.2 million pounds or 74 percent of the additional allocation was utilized. The fifth action was effected by Presidential Proclamation 4253 which authorized temporary increases in the butter and butter oil quotas of 56 million and 22.6 million pounds, respectively, during the period November 1 through December 31, 1973. These additional quotas were utilized to the extent of 98 percent and 100 percent, respectively.

The five actions to permit additional dairy imports were necessary to augment supplies because of smaller domestic production. Milk production for 1973 was approximately 3 percent below 1972 and, since consumption of milk in fluid form remained constant, production of butter and nonfat dry milk fell sharply and the expansion of cheese output slowed. Government price support purchases by the Commodity Credit Corporation ceased in mid-1973 as prices to producers remained well above support levels. All five import actions were, as required by law, investigated by the Tariff Commission; in all cases, the Commission found that the actions met the statutory criteria of noninterference with the support program for milk.

In August 1973, the Tariff Commission was directed to investigate and report with respect to increasing or suspending the import quotas for nonfat dry milk and for animal feeds containing milk or milk derivatives ("milk replacers"). The Commission submitted its report to the President on December 28, 1973, recommending a one-year increase in the nonfat dry milk quota and no change in the animal feeds quota. Action on the report was scheduled for early 1974.

At the close of the year the Tariff Commission had underway investigations requested by the President in October on two additional Section 22 product groups, with hearings scheduled for early 1974. The products involved were cotton, cotton waste and cotton products and wheat and milled wheat products.

E. Actions Under the Antidumping Act

The Antidumping Act, 1921, as amended, imposes on the Secretary of the Treasury the responsibility for determining whether foreign merchandise is being, or is likely to be, sold in the United States at less than its fair value. If the Secretary of the Treasury makes an affirmative determination, the case is forwarded to the U.S. Tariff Commission to determine whether an industry in the United States is being or is likely to be injured or is prevented from being established by reason of such imports. In the event of affirmative determinations by both agencies, a finding of dumping is made by the Secretary of the Treasury and a special dumping duty is assessed on all unappraised imports into the United States covered by the finding, to the extent any dumping margins are found to exist.

In March 1973, the Treasury Department issued a policy statement with regard to the impact of international currency realignments on the administration of the Antidumping Act. In the normal situation, less than fair value sales occur when merchandise is sold by a foreign exporter to a purchaser in the United States at a lower price than in the exporter's home market. The appreciation of foreign currencies in relation to the U.S. dollar had effectively increased the adjusted home market ex-factory prices of foreign merchandise as expressed in U.S. dollars. Treasury gave public notice in March 1972 that sales at less than fair value may result from the currency realignments unless foreign exporters take appropriate actions to adjust prices. The purpose of the new statement was to reemphasize the policy and to announce that no price discrepancies resulting solely from the currency realignments would be taken into account in fair value investigations with respect to relevant transactions taking place within 45 days of the exchange rate changes.

In April 1973, the Treasury published a notice in the Federal Register announcing its decision concerning the extent to which price information relating to sales below cost of production may be used in determining "fair value" within the meaning of the Antidumping Act. After consideration of public comments, the Department concluded that the fact that foreign merchandise is sold in the home market or for exportation to countries other than the United States at prices less than the cost of production is not a sufficient basis for disregarding such prices in the determination of the "fair value" of such merchandise.

In January 1973, new amendments to the Antidumping Regulations became effective. These amendments, adopted after consideration of public comments submitted in response to proposed changes published in the Federal Register of April 1972, set forth specific timetables for processing cases and special procedures for accelerated renewal of investigations where the Treasury has reasonable cause to believe that price assurances have been violated in discontinued investigations. Other amendments included (1) procedures whereby discontinued investigations can be terminated and (2) supplemental language to clarify existing and newly implemented procedures.

During the calendar year 1973, the following actions were taken under the U.S. Antidumping Act:

Findings of dumping	11
Discontinuance of investigations by reason of assurances	5
Subtotal	16
Determination by Treasury of sales at not less than fair value	9
Determination by Tariff Commission of no injury	10
Subtotal	19
TOTAL	35

F. Actions Under Section 303, Tariff Act of 1930, As Amended (Countervailing Duties)

Under the Countervailing Duty Law (19 U.S.C. 1303), the Secretary of the Treasury is required to assess an additional Customs duty equal to the amount of a "bounty or grant" which is paid or bestowed on imported merchandise. The purpose of the statute is to offset the effects of unfair export subsidy programs by foreign governments. As a matter of policy, the Treasury Department acts only in cases where it has received a complaint from domestic industry.

During 1973, there were two affirmative actions under the Countervailing Duty Law. The products covered were: X-radial steel belted tires produced by Michelin Tire, Ltd. of Canada, and refrigerators and refrigerator parts from Italy. During 1973, one Countervailing Duty Proceeding Notice was issued against die presses from Italy. A Countervailing Duty Proceeding Notice launches a formal investigation by the Treasury Department concerning alleged bounties or grants by a foreign government.

G. Unfair Import Practices Under Section 337, Tariff Act of 1930, As Amended

Section 337 of the Tariff Act of 1930 declares unlawful unfair methods of competition in import trade, the effect or tendency of which is to destroy or substantially injure a domestic industry, efficiently and economically operated, to prevent the establishment of an industry, or to restrain or monopolize trade and commerce in the United States. Although the statute has a broader scope, most of the cases under this section have involved patent infringement, i.e., the unlicensed importation of articles falling within the claims of a U.S. patent.

The statute provides for a Tariff Commission investigation and report to the President in respect of alleged unfair methods of competition. If the President is satisfied that the statutory criteria have been met, he must direct the Secretary of the Treasury to issue an exclusion order against the articles concerned in the unfair methods of competition. Additionally, if the President has preliminary information, pending the full investigation, indicating that the statute is being violated, he may direct the issuance of a temporary exclusion order, in which case imports are permitted under bond prescribed by the Secretary of the Treasury.

At the end of 1973, full investigations were continuing on certain writing instruments and nibs therefor, electronic pianos, cylinder boring machines and boring bars, certain disposable catheters and cuffs therefor, and convertible game tables. Preliminary inquiries were in process on 13 other complaints involving polytetrafluoroethylene in tape form; golf gloves; electronic flash devices; variable displacement flower holders; snips and scissors; doxycycline; hydraulic tappets; preset variable resistance controls; analog-to-digital meters; certain electronic audio and related equipment; chain door locks; certain fluid logic controls; and piezoelectric

ceramic 10.7 MHz electric wave filters. Four additional complaints were received but inquiries had not been ordered. During the year, one full investigation (ampicillin) and three preliminary inquiries (closed-toe circular hosiery knitting machines and devices, dual in-line reed relays, and combination measuring tools) were terminated by the Commission.

No new temporary exclusion orders were recommended by the Commission during 1973. In the case of pantyhose, the temporary order remained in effect pending Presidential action on the Commission's final report. In January 1973, the President announced that he would not order the permanent exclusion of plastic sheets with open work structure on which the Commission submitted a report in 1972 finding violation of the statute.

H. Orderly Marketing Agreements

Under the Agricultural Act of 1956, as amended, section 204, the President has the authority to conclude and implement agreements with foreign countries limiting the export from such countries and the importation into the United States of any agricultural commodity or product manufactured therefrom, textiles, and textile products. In the event a multilateral agreement exists among countries accounting for a significant part of world trade in the articles covered, the President may also issue regulations controlling trade in products of countries not parties to the agreement. Section 204 authority has been utilized with respect to textiles and textile products, meat, and strawberries.

Following representations from domestic canners of mushrooms to negotiate an orderly marketing agreement with the major exporting countries, the President requested the Tariff Commission, under section 332 of the Tariff Act of 1930, to conduct an investigation of the competitive conditions facing U.S. growers and canners and to give him advice as to possible injury to the industry. In its report, submitted May 30, 1973, three Commissioners expressed the view that the domestic mushroom industries were threatened with future injury; one concluded that imports had already caused injury; and two Commissioners declined to take a position on the grounds that the Commission is not required to do so in a report on a section 332 investigation. The Executive Branch has been closely monitoring trends in imports of canned mushrooms, and discussions of the problem with the principal exporting countries were continuing at the end of the year.

VIII. INTERNATIONAL ACTION ON COMMODITY TRADE PROBLEMS

A. General

The supply-demand situation for a number of major commodities was marked by tight worldwide supply in 1973. High global demand, production shortfalls, sharply reduced stock levels, currency uncertainties and speculative activities drove some commodity prices to record highs. In U.S. open markets this unprecedented demand was felt keenly with respect to some commodities, and for a few it became necessary to impose controls on exports. (See Chapter VI.) The major international commodity agreements covering coffee and sugar were also affected and were extended without operative economic features (i.e. price-quota provisions), which were designed to cope primarily with surpluses and depressed prices. The new cocoa agreement had not yet built up buffer stock and the tin buffer stock was depleted.

The efforts of the international community to find solutions both to the new commodity problems and others of long standing were reflected in the variety and number of meetings sponsored by the United Nations Conference on Trade and Development (UNCTAD), the Food and Agriculture Organization (FAO), and the organizations established to administer commodity agreements. The United States is a participant in only the coffee and wheat agreements but cooperates, as appropriate, with the Councils administering the sugar, tin, and cocoa agreements.

UNCTAD and FAO continued to be the major forums in 1973 for the airing of problems concerning commodities not covered by formal agreements or independent study groups. Bananas, tea, jute, kenaf, and allied fibers, and hard fibers received special attention. The United States was represented at most of these meetings.

B. Products Covered by Commodity Agreements

1. Wheat

The International Wheat Council met twice in 1973 and in each meeting considered the feasibility of negotiating price provisions as envisaged under Article 21 and related rights and obligations for the Wheat Trade Convention of the International Wheat Agreement, 1971 (IWA). These provisions are absent from the IWA because of the inability of the negotiating conference in early 1971 to reach agreement on the selection of a reference type and grade of wheat and on a desirable price level for internationally-traded wheat.

The Council concluded that the tight world supply of wheat, the international currency situation, and the enlargement of the European Community precluded successful negotiation of these issues in 1973.

The IWA with its two instruments, the Wheat Trade Convention (WTC) and the Food Aid Convention (FAC), expire June 30, 1974. While it was agreed that the IWA with its WTC should be extended for another two years, the European Community had not yet arrived at a decision about extending the FAC. The United States and some other Governments took the position that both conventions should be considered together and that the maximum amount of time consistent with the time needed subsequently for ratification and related procedures should be given to the Community to reach a definitive decision. As a result, a special meeting of the pertinent governing bodies of the IWA, the Council and the Food Aid Committee was scheduled for February 1974, and if appropriate, a Conference of Governments immediately following these meetings was also to be held to establish the text of the appropriate protocols and set the schedule for signature and ratification so that the protocols could take effect July 1, 1974.

2. Coffee

The overproduction and surpluses in coffee which prevailed when the 1962 and 1968 coffee agreements were negotiated no longer existed when the 1968 Agreement expired on September 30, 1973. In fact, the Agreement's price-quota provisions had been suspended six months earlier and it was clear that producer and consumer members would be unable to reach agreement on similar provisions in a new coffee agreement. The 1968 Agreement, therefore, was extended for two years effective October 1, 1973, but without its operative economic clauses. The United States acceded to the extended Agreement which, principally, retains the International Coffee Organization as a forum for possible negotiation of a new and operative Agreement.

In the absence of operative economic provisions in the extended agreement and with a view to effecting some control over prices, a number of the producing nations have been attempting to concert their efforts to limit their coffee exports by agreeing to retain stocks equal to some 10 percent of their annual exportable production. Also, Brazil, Colombia, the Ivory Coast and Portugal have formed a coffee marketing corporation to intervene directly and indirectly in the market and otherwise support the producers' efforts to maintain prices. At the end of the year it was still too early to evaluate the effectiveness of these activities.

3. Sugar

The United States participated in UNCTAD-sponsored negotiations intended to provide a replacement for the 1968 International Sugar Agreement. However, agreement could not be reached among major importers and exporters on price triggers, and the Conference adopted only an agreement designed to keep the International Sugar Organization alive as a consultative forum. The United States, which did not sign the 1968 Agreement, also did not adhere to the new truncated agreement. At the end of the year, the Administration was considering what form U.S. sugar policy should take following the expiration of the Sugar Act of 1948, as amended, on December 31, 1974.

4. Cocoa

The International Cocoa Agreement (ICA), which was adopted by the UN Cocoa Conference on October 20, 1972, entered into force on June 30, 1973. Due to the high prices prevailing on the world cocoa market the buffer stock and export quota provisions of the Agreement have not been operative, but exporters have been depositing one U.S. cent per pound on all cocoa exports into a fund to finance a buffer stock when and if needed.

The United States participated actively in the conferences which led to the ICA, but did not adhere to the Agreement. This decision was made after a careful assessment of all the costs and benefits of participation indicated that the economic deficiencies of the provisions on price, quotas and buffer stocks, and the absence of authority to deal with production problems, outweighed the benefits of membership. Although not a member, the United States has offered to supply cocoa statistical information to the ICA.

5. Tin

Tin also experienced increased demand and high prices. In the case of the International Tin Agreement, the emphasis shifted from supply-restraint to price-restraint and the buffer stock sold virtually all of its tin in an effort to dampen the price rise. The United States does not adhere to the Agreement but does provide the Organization with basic statistics on U.S. consumption and production.

6. Olive Oil

The International Olive Oil Council, of which the United States is not a member but only an observer, held its annual meeting in Madrid, November 26-December 1, 1973.

C. Products Not Covered by Commodity Agreements

1. Bananas

The fifth session of the FAO Intergovernmental Group on Bananas met in Bremen in July 1973. Although the final report of the Conference indicated that exporting countries, for the first time, have accepted the principle of production regulation, substantial divisions remain among exporters and will make any future agreement on specific production levels difficult. The meeting also undertook to explore the continuing problem of market access and the aim of gradual elimination of tariffs and quantitative restrictions on imports of bananas and internal taxes which reduce consumption. The United States has no import tariffs or internal taxes on bananas.

2. Tea

Although no formal FAO consultations on tea were held in 1973, there continued to be low key pressure from India and Sri Lanka for a long-term tea agreement. The newcomer African tea producers, however, have shown concern that an agreement might restrain their rate of export growth. The Sub-Group of Exporters of the FAO Intergovernmental Group on Tea (IGT) again set 1973/74 and 1974/75 global quotas at levels

in excess of anticipated demand. An UNCTAD commodity consultation on tea was scheduled for June 1974 under FAO auspices.

3. Rubber

The International Rubber Study Group (IRSG) at its 88th meeting in London in June received a report on the status of rubber in world trade from a Group of Experts established under the aegis of the IRSG. A special Steering Committee, of which the U.S. Government is a member, was set up to evaluate the conclusions of the report and to act on some of its recommendations. However, the Steering Committee concluded that further clarification was needed and also that the changes in the world rubber situation would make it desirable to have the authors take another look at the report. The Steering Committee will meet again in mid-1974 to review developments and consider a report to the IRSG.

4. Lead and Zinc

The International Lead and Zinc Study Group held its annual meeting at Geneva in November and issued a provisional report on new mine and smelter operations. The ILZSG compiled its regular estimates of 1973 and 1974 worldwide production and consumption statistics, and favorable recognition was given to U.S. Government stockpile sales of zinc which had helped to alleviate the zinc shortage during the year.

5. Tungsten

The first of the UNCTAD-sponsored intergovernmental "intensive consultations" on commodities centered on tungsten. At an international meeting in Geneva in November, the consultative group requested the UNCTAD Committee on Tungsten to prepare an in-depth study of the peculiarities of the tungsten market, which had not fully shared in the buoyancy experienced by many other commodities over the past several years.

6. Other Commodities

Independent and intergovernmental study groups held routine meetings on cotton and wool.

IX. OTHER DEVELOPMENTS

A. Negotiation of the Arrangement Regarding International Trade in Textiles

A new multilateral textile arrangement was reached in December 1973 under GATT auspices by negotiators from 50 countries. The purpose of the new Arrangement Regarding International Trade in Textiles is to achieve sustained but orderly expansion of international textile trade.

The Arrangement provides rules under which importing and exporting countries can freely negotiate bilateral agreements on quantitative levels of trade taking into consideration the real needs of both countries. Existing bilateral textile agreements must either be brought into conformity with the new Arrangement or phased out if not justified.

The negotiations which produced the new Arrangement followed almost two years of study by a multinational group which was charged by the GATT Council with the responsibility of studying and seeking solutions to the problems of world textile trade. The Arrangement, accepted by the United States on January 1, 1974, replaces the Long-Term Arrangement Regarding International Trade in Cotton Textiles, which expired on December 31, 1973. However, the new Arrangement covers wool and manmade fiber as well as cotton textiles and apparel.

In addition to the negotiation of bilateral agreements, the Arrangement provides another mechanism for countries to solve their textile trade problems. When, in accordance with criteria specified in the Arrangement, an importing country finds its market disrupted, it may seek bilateral consultations with the government of the exporting country. If no solution is reached in 60 days, the importing country may unilaterally restrain further imports from the exporting country of the product in question. The Arrangement provides a formula to be used in calculating the minimum level of restraint.

The Arrangement calls for the establishment under GATT of a Textile Surveillance Body to be comprised of importing and exporting countries. The Surveillance Body will supervise operation of the Arrangement. It will review all bilateral agreements and unilateral actions to see if they are in conformity with the Arrangement's provisions and may make recommendations to participants.

B. Voluntary Restraints on Steel Exports to the United States

The year 1973 was the second of a three year arrangement by which the leading integrated steel producers in Japan and the European Community undertook to restrain their exports of steel mill products to the United States. Their action extended a similar voluntary export restraint arrangement covering the three years 1969-1971, but with a number of additional provisions: (1) a reduction of the 5.0 percent annual growth rate of shipments in the 1969-1971 arrangement to 2.5 percent, in line with recent growth in the U.S. steel market; (2) the addition of UK steel producers as participants in the voluntary restraint undertaking; (3) specific tonnage limitation on each of the three groups of specialty steel (stainless, tool, and other alloy steel); (4) firmer assurances on maintenance of the mix of products exported as well as patterns of geographic distribution in the United States; (5) inclusion of restraints with respect to shipments of fabricated structural steel and cold finished steel bars; and (6) provision for a consultative process through which the U.S. Government or the foreign producer associations may initiate periodic discussions to consider any problem or question which may arise.

Imports of steel mill products from participants in the Voluntary Restraint Arrangement amounted to 12.1 million tons or 80 percent of U.S. imports from all sources in 1973. Shipments from the participants were well within their overall ceilings. Japanese producers undershipped by one million tons, or by 15 percent, and EC producers by 1.6 million tons, or 20 percent. With respect to certain specific commitments, however, there were some overshipments. Regarding grades of specialty steels, other alloy and tool steel from Japan exceeded their ceilings by 6.6 and 49.5 percent, respectively. From the EC, other alloy, high speed tool and stainless steel were over by 10.6, 29.2 and 20.7 percent, respectively. In addition, although receipts from Japan on the West Coast were lower than in 1972, this volume represented about 36 percent of all imports of steel mill products from Japan, exceeding the commitment to limit shipments to that area to one-third of the total shipped to the United States.

C. Petroleum

Developments involving trade in petroleum and petroleum products during 1973 had widespread ramifications. While U.S. demand for these items increased 5 percent in 1973, U.S. domestic production of crude oil actually decreased 3 percent. Consequently, U.S. imports of crude oil and petroleum products rose sharply from 4.7 million barrels per day in 1972 to 6.1 million barrels per day in 1973, an increase of 27 percent. U.S. exports increased slightly to approximately 248,000 barrels per day but this was only a small percentage of either total production or imports.

There were four major events involving U.S. oil imports in 1973. The first was a policy decision in April, which completely revised the import control program. The most important features of the new program are the elimination of the volumetric quotas established under the Mandatory Oil Import Program and their replacement by a system of license fees to regulate the level of crude oil and product imports. The new program is intended to help in assuring adequate supplies of crude oil and refinery products in the short run and to provide incentives to increase domestic crude oil exploration and production and the construction of refineries over the longer run. To this end, a schedule of gradually increasing license fees on crude oil and petroleum products has been introduced.

Second, an announcement by the President in November declared our intention to have the capability to be independent of energy imports by the 1980's. This announcement followed the oil embargo and production cutbacks of the Arab oil producers in October. The United States intends both to eliminate the strain imposed on our balance of payments by increasing oil prices and to protect ourselves from the use of oil as a political weapon against us.

The major event for U.S. and world trade in 1973, however, was the rapid rise in petroleum prices. The free on board cost of benchmark Arabian Light Crude rose approximately 300 percent through January 1 of 1974, with most of the rise coming in the final quarter. With all crude prices rising, the world's consuming nations, developed and underdeveloped, face the possibility of balance of payments problems and recession. Secretary of State Kissinger responded by calling for a conference of developed oil consuming nations for early 1974 to develop a common front on oil problems.

The fourth event affecting U.S. petroleum policy in 1973 was the decision by Canada, our largest source of imports, to begin reducing energy shipments to the United States and to impose an export tax on petroleum. The Canadians made this decision because they felt their resources were dwindling relative to requirements and should be retained for internal use.

D. U.S.-Canada Automotive Agreement

Under the U.S.-Canada Automotive Products Agreement, trade between the two countries in automotive vehicles and original equipment parts has, with certain exceptions, been duty free since 1965. The Agreement has largely achieved its objective of facilitating an integration of the North American automotive industry.

Since the inception of the Agreement, trade with Canada in automotive products has increased 15-fold, and in 1973 two-way trade reached a level of over \$10 billion. After several years of deficits in trade under the Agreement, the United States registered a substantial surplus. The United States is continuing its efforts to have Canada terminate certain restrictive measures designed to foster automotive production in Canada.

An annual report made by the President to the Congress on the operation of the Agreement provides detailed information on the implementation of the Automotive Products Trade Act of 1965 as well as data on production, trade, prices, and employment.

E. U.S.-Philippine Discussions on New Treaty Provisions Covering Trade

A number of major elements in economic relations between the United States and the Philippines have, since 1965, been governed by the Laurel-Langley Agreement, which is scheduled to expire on July 3, 1974. A key provision has guaranteed reciprocal national treatment for investors of each country in the territories of the other. Special trade provisions include reciprocal and periodically declining tariff

preferences, an agreed minimum quota for imports of Philippine sugar into the U.S. market, an absolute quota on Philippine cordage fiber, and periodically declining tariff quotas on cigars, scrap and filler tobacco, coconut oil, and buttons of pearl and shell.

The United States has not sought an extension of the Laurel-Langley Agreement. In lieu thereof, the United States presented to the Philippines in September 1973 a draft treaty of Amity and Economic Relations as a basis for exploratory discussions concerning future economic relations. The draft treaty contains a standard clause which affirms the most favored nation principle. Discussions of the draft were expected to take place early in 1974.

F. Statistical Reporting Requirements on Imports

Broadly speaking, there are two ways of valuing imports for customs and statistical purposes: at the border of the exporting country or at the border of the importing country. The first method excludes freight and insurance costs and is commonly called "f.o.b." for "free on board." The second method includes these costs and is called "c.i.f." for cost, insurance and freight.

Import statistics are used for analytical purposes in three broad areas: balance of payments analysis; balance of trade analysis; and commodity analysis. No single basis of valuation is satisfactory for all purposes for which import statistics are compiled. For balance of payments analysis, f.o.b. is internationally recognized as correct. For the other two areas, either c.i.f. or f.o.b. is acceptable with the appropriate qualifications. The United States historically has used an f.o.b. type of valuation, while most other countries have used c.i.f.

Since 1967 the Bureau of the Census has published quarterly and annual estimates of c.i.f. values for aggregated commodity groups. However, Congress appropriated money in the FY 1973 budgets of the Commerce and Treasury Departments to begin collecting complete import statistics on both c.i.f. and f.o.b. bases, in addition to the regularly collected customs value statistics.

In August 1973, a notice amending the statistical reporting requirements on imports to carry out the new statistical program was published in the Federal Register. The new requirements drew strong objections from importers; and the American Importers Association and others sought a court injunction to prevent their implementation, charging they had not been developed in accordance with the Federal Procedures Act. Consequently, on September 25, the new requirements were rescinded, and on the following day a proposal for new reporting requirements was published in the Federal Register and public views requested. The proposed requirements, which were identical to those initially stipulated in the August notice, called for importers to supply certain additional c.i.f. and f.o.b. data to the Government on all imported merchandise as follows:

- (1) Its purchase price (i.e., its actual transaction value) adjusted, when necessary, to obtain its so-called f.o.b. value at the port of exportation (or the equivalent thereof for merchandise not acquired by purchase).
- (2) In the case of merchandise not acquired in an arm's-length transaction, the equivalent of the arm's-length value therefor to be derived, to the extent practicable, from customs values, as generally determined under section 402 and 402a, Tariff Act of 1930, as amended.
- (3) Separately, the aggregated costs incurred in bringing the merchandise from the port of exportation in the country of exportation to the first port of entry in the United States.

After considering the views submitted by interested parties, the new reporting system was put into effect on December 10, 1973. The data will be available in full commodity and country details for imports in 1974.

G. Brussels Tariff Nomenclature (BTN) Study

Work continued in the Tariff Commission on a report requested by the President, which is to include (1) a draft translation of the Tariff Schedules of the United States which would conform to the BTN and (2) an analysis of the probable effects on U.S. industries and trade if the United States were to adopt the BTN, as had been

proposed by the Williams Commission and various business representatives. In view of the complexity of the subject, the deadline for the Tariff Commission's report was extended to September 30, 1974, after which time the Executive Branch expects to devote further attention to the question of whether legislation should be submitted to the Congress.

APPENDIX A

World Exports, 1973

<u>Area</u>	<u>Value</u> (\$ Billion)	<u>Increase</u> <u>from 1972</u> <u>(Percent)</u>
Total	505	35
<u>Developed Countries</u>	409	36
United States ^{1/}	71	43
Western Europe	260	37
Expanded EC.	212	37
Japan.	37	29
Canada	25	24
Australia/New Zealand/South Africa . .	16	46
<u>Developing Countries</u>	96	30
OPEC Members ^{2/}	33	35
Others	63	29

^{1/} Includes military grant-aid shipments.

^{2/} Members at the close of 1973 were Algeria, Ecuador, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates, and Venezuela.

Note: Data are preliminary and incomplete, particularly for developing countries.

U.S. Regional Trade, 1972-1973

(Millions of dollars)

	<u>1972</u>	<u>1973</u>	<u>Percent Change</u>
		<u>Exports</u>	
Canada.	12,415	15,073	+ 21
Western Europe.	15,127	21,175	+ 40
EC.	11,900	16,746	+ 41
Original Six.	8,859	12,620	+ 42
United Kingdom.	2,658	3,564	+ 34
Japan	4,963	8,312	+ 67
Oceania	1,034	1,744	+ 69
American Republics.	6,467	8,921	+ 38
East and South Asia	4,373	6,609	+ 51
Near East ^{1/}	1,971	3,041	+ 54
Africa.	1,500	2,082	+ 39
Eastern Europe.	819	1,797	(G)
People's Republic of China.	64	690	(G)
		<u>Imports</u>	
Canada.	14,927	17,700 ^{2/}	+ 19
Western Europe.	15,423	19,162	+ 24
EC.	12,489	15,508	+ 24
Original Six.	8,983	11,205	+ 25
United Kingdom.	2,987	3,642	+ 22
Japan	9,064	9,645	+ 6
Oceania	1,146	1,554	+ 36
American Republics.	5,772	7,600 ^{3/}	N.A.
East and South Asia	5,264	6,920 ^{3/}	N.A.
Near East ^{1/}	773	1,170 ^{3/}	N.A.
Africa.	1,578	2,325 ^{3/}	N.A.
Eastern Europe.	321	519	+ 62
People's Republic of China.	32	64	+100

^{1/} Includes Egypt.

^{2/} Imports for 1973 estimated from January-October values since data on arrival of crude oil in final two months are not available by country of origin.

^{3/} Imports understated by value of crude oil imports in November and December which are not available.

(G) Percent change greater than 100.

N.A. Not applicable.

U.S. Exports of Principal Commodities, 1972-1973

(Millions of Dollars)

<u>Commodity</u>	<u>1973</u>	<u>Change from 1972</u>	
		<u>Value</u>	<u>Percent</u>
<u>Nonagricultural Products, Total.</u>	<u>59,943</u>	<u>+13,229</u>	<u>+ 33</u>
Machinery, Total.	17,587	+ 4,025	+ 30
Power generating machinery	2,218	+ 376	+ 20
Office machines and parts.	2,085	+ 462	+ 28
Electric power machinery, switchgear	1,066	+ 279	+ 35
Tubes, transistors, and semiconductors	1,055	+ 431	+ 69
Telecommunications apparatus	1,038	+ 202	+ 24
Agricultural machinery, tractors, and parts	685	+ 187	+ 38
Transport Equipment, Total.	10,255	+ 2,284	+ 29
Aircraft and parts	4,124	+ 1,109	+ 37
Automotive parts	2,611	+ 400	+ 18
Passenger cars	1,764	+ 461	+ 35
Trucks	713	+ 150	+ 27
Chemicals, Total.	5,749	+ 1,616	+ 39
Organic chemicals.	1,510	+ 408	+ 37
Plastic materials and resins	1,028	+ 332	+ 48
Pharmaceuticals.	626	+ 152	+ 32
Other Nonagricultural Products, Total	19,352	+ 5,304	+ 38
Logs and lumber.	1,287	+ 567	+ 79
Iron and steel products.	1,258	+ 458	+ 57
Textiles, other than clothing.	1,225	+ 446	+ 57
Nonferrous base metals	950	+ 383	+ 68
Paper and manufactures	919	+ 193	+ 27
Iron and steel scrap	598	+ 354	+145
<u>Agricultural Products, Total</u>	<u>17,855</u>	<u>+ 8,350</u>	<u>+ 88</u>
Wheat.	4,043	+ 2,677	+196
Soybeans, oilcake, and meal.	3,690	+ 1,773	+ 92
Corn	2,837	+ 1,596	+129
Cotton	929	+ 426	+ 85
Rice	541	+ 152	+ 39

U.S. Imports of Principal Commodities, 1972-1973

(Millions of Dollars)

<u>Commodity</u>	<u>1973</u>	<u>Change from 1972</u>	
		<u>Value</u>	<u>Percent</u>
<u>Industrial Supplies and Materials,</u>			
<u>Total</u>	<u>26,542</u>	<u>+6,220</u>	<u>+31</u>
Crude petroleum.	4,581	+1,974	+76
Fuel oil	2,403	+ 993	+70
Iron and steel products.	3,189	+ 118	+ 4
Lumber	1,521	+ 342	+29
Industrial and agricultural chemicals. . .	1,334	+ 204	+18
Newsprint.	1,185	+ 131	+12
Woodpulp	660	+ 167	+34
 <u>Consumer Goods, Total</u>	 <u>22,696</u>	 <u>+3,120</u>	 <u>+16</u>
Passenger cars	6,489	+ 759	+13
Automotive parts and equipment	3,076	+ 585	+23
Clothing	2,154	+ 271	+14
Footwear	1,079	+ 164	+18
Gem diamonds	827	+ 190	+30
Sound recorders and reproducers.	821	+ 117	+17
Television sets.	537	+ 38	+ 8
Transistor radios.	519	+ 83	+19
 <u>Capital Equipment, Total.</u>	 <u>8,813</u>	 <u>+2,135</u>	 <u>+32</u>
Office machines.	905	+ 205	+29
Tubes, transistors, and semiconductors . .	695	+ 299	+76
Agricultural machinery, tractors, and parts	605	+ 157	+35
Trucks, buses, special vehicles.	1,284	+ 155	+14
Civilian aircraft and parts.	584	+ 147	+34
 <u>Food and Beverages, Total</u>	 <u>9,081</u>	 <u>+1,815</u>	 <u>+25</u>
Meat	1,691	+ 446	+36
Coffee	1,566	+ 384	+32
Fish	1,378	+ 179	+15
Alcoholic beverages.	996	+ 172	+21
Sugar.	918	+ 86	+10

APPENDIX B

Contracting Parties to the GATT and Countries
Participating in the Multilateral Trade Negotiations*

Member countries (83)

*Argentina	Guyana	*Pakistan
*Australia	Haiti	*Peru
*Austria	*Hungary	*Poland
*Bangladesh	*Iceland	*Portugal
Barbados	*India	Rhodesia
*Belgium	*Indonesia	*Romania
*Brazil	*Ireland	Rwanda
*Burma	*Israel	*Senegal
Burundi	*Italy	Sierra Leone
Cameroon	*Ivory Coast	*Singapore
*Canada	*Jamaica	*South Africa
Central African Republic	*Japan	*Spain
Chad	*Kenya	*Sri Lanka
*Chile	*Korea	*Sweden
*Congo	Kuwait	*Switzerland
*Cuba	*Luxembourg	*Tanzania
Cyprus	*Madagascar	*Togo
*Czechoslovakia	Malawi	*Trinidad and Tobago
*Dahomey	*Malaysia	*Turkey
*Denmark	Malta	*Uganda
*Dominican Republic	Mauritania	*United Kingdom of
*Egypt	*Mauritius	Great Britain and
*Finland	*Netherlands,	Northern Ireland
*France	Kingdom of the	*United States of
*Gabon	New Zealand	America
Gambia	*Nicaragua	Upper Volta
*Germany, Federal Republic of	Niger	*Uruguay
*Ghana	*Nigeria	*Yugoslavia
*Greece	*Norway	*Zaire

Acceded provisionally (2)

*Philippines
*Tunisia

Countries to whose territories the GATT has been applied and which now, as independent State, maintain a de facto application of the GATT pending final decisions as to their future commercial policy (15)

*Algeria	Khmer Republic	Tonga
Bahamas	Lesotho	Yemen, People's
Bahrein	Maldives	Democratic
*Botswana	Mali	Republic
Equatorial Guinea	Qatar	*Zambia
Fiji	*Swaziland	

*Countries participating in the MTN as of February 1974. In addition to the countries above Bolivia, Bulgaria, Columbia, Costa Rica, Ecuador, El Salvador, Ethiopia, Guatemala, Honduras, Iran, Iraq, Mexico, Sudan, Thailand, Venezuela, and Viet Nam are members of the Trade Negotiations Committee.

APPENDIX C

Summary of Petitions Filed with the Labor Department
Pursuant to Presidential Authorization to Workers in
an Industry to Petition for Adjustment Assistance
Following an Affirmative Finding on an Escape Clause Case

1970 - 1973

<u>Industry</u>	<u>Petitions</u>	<u>Denied</u>		<u>Affirmed</u>	
		<u>Petitions</u>	<u>Estimated Workers</u>	<u>Petitions</u>	<u>Estimated Workers</u>
Earthenware	2	1	200	1	270
Marble	2			2	280
Piano	8	1	30	7	1,785
Sheet Glass	<u>5</u>	<u>—</u>	<u>—</u>	<u>5</u>	<u>1,770</u>
Total	17	2	230	15	4,105

Summary of U.S. Tariff Commission Determinations
on Worker Adjustment Assistance Petitions
October 1962 - December 1973

Industry	Denied		Affirmed		Evenly Divided	
	<u>Peti- tions</u>	<u>Est. Workers</u>	<u>Peti- tions</u>	<u>Est. Workers</u>	<u>Peti- tions</u>	<u>Est. Workers</u>
Apparel						
Men's, Youths' and Boys'						
Furnishings.	2	326				
Chemicals and Allied Products						
Synthetic Fibers	1	1,000				
Dyes and Pigments.	1	300				
Electrical Equipment						
Radio, TV, Stereo, Phono-						
graph and Tape Recorders .	7	2,310	5	6,300	2	3,500
Electronic Components. . .	12	7,275	1	240	6	4,065
Electrical Lighting and						
Wiring Equipment	3	620				
Food and Kindred Products						
Canned Fruits and Vege-						
tables	1	163				
Fabricated Metal Products						
Structural Metal Products. .			3	450		
Leather Products						
Men's Shoes.	12	2,444				
Women's Shoes.	45	9,675	11	3,150	25	7,683
Shoe Components.	4	507				
Leather Tanning.	1	400				
Metal Mining						
Iron Ores.	1	650				
Miscellaneous Manufacturing						
Industries						
Musical Instruments.			3	910	1	280
Games and Toys	2	5,830				
Sporting Goods	1	100				
Silverware and Plated Ware .			3	1,810		
Nonelectrical Machinery						
Metalworking Machinery . . .	2	1,600	1	26		
Office Machines.	2	1,700				
Nonmetalworking Machinery. .	2	625				
General Industrial						
Machinery and Equipment. .			1	650		
Primary Metal Industries						
Ferrous Metal Refining . . .	5	1,452	1	400		
Nonferrous Metal Refining. .	2	530				
Rubber Products						
Tires.	1	100				
Rubber Footwear.	2	540	2	900	4	4,070
Miscellaneous Rubber						
Products	2	1,683				
Stone, Clay, and Glass						
Products						
Structural Clay Products . .	3	985				
Glass Products	3	475				
Pottery Products	1	260				
Textile Mill Products						
Cotton Fabrics	6	2,554	5	2,680	1	220
Knitted Fabrics.	3	3,100				
Manmade Fabrics.	1	600				
Wool Fabrics	3	1,042				
Spun Yarn.	2	1,280				
Yarn and Thread.	1	1,700				
Miscellaneous Textile						
Products	1	200				
Transportation Equipment						
Motor Vehicles			1	2,000		
Motor Vehicle Parts.	2	500			1	150
Totals	137	52,526	37	19,516	40	19,968

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